

October 20, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Staples

ITC Ltd.

Mixed bag; Sales growth should improve from 3Q as export ban comes into base

ITC Ltd. (ITC) 2QFY24 revenues were in-line but margins came in lower than our estimate. Within business segments, while cigarette business was in-line, FMCG-Others, Agri business and Paperboards, Paper & Packaging (PPP) missed our estimate. The underperformance in these segments was offset by lower excise duty and inter-segmental sales versus our expectation for the quarter. PPP also sharply disappointed on margins largely led by subdued demand, sharp reduction in global pulp prices and high base effect. As export ban comes into base, normalized Agri business growth should lead to better overall revenue growth in 2HFY24 for ITC. We now introduce FY26 estimates and but build a relatively subdued 10% EPS CAGR led by 7.2% revenue CAGR over FY23-FY26E. Rolling forward to Sept'25, we get a revised target price (TP) of Rs500, maintaining our ADD rating.

Result Highlights

- 2QFY24 headline performance: Standalone revenue (adjusted for excise duty) was up 2.6% YoY to Rs165.5bn (vs est. Rs164.3bn). EBITDA was up 3% YoY to Rs60.4bn (vs est. Rs63.3bn). Adjusted PAT (APAT) was up 10.3% YoY to Rs49.3bn (vs est. Rs49.5bn).
- Cigarette revenue grew by 10.1% YoY to Rs76.6bn (in-line with our est.), up ~9.5% on a 4-year CAGR basis. Net Segment Revenue (Net of Excise Duty/NCCD on Sales) up by 8.5%. We believe cigarette volumes (calculated) to have grown by around ~6% (vs our est. of 7%). Cig. business EBIT grew by 8% YoY with EBIT margins down by 130bps YoY to 62.4% (flat QoQ).
- FMCG-Others revenue grew by 8.3% YoY to Rs52.9bn (below our est.), up ~12.6% on a 4-year CAGR basis. FMCG-Others EBIT margins was up 170bps YoY to 8.3% (flat QoQ). Segment EBITDA margin stood at 11% (+150bps YoY).
- Paperboards, Paper & Packaging (PPP) again had a disappointing quarter (revenues declined 9.5%; EBIT margin down sharply by 1,230bps YoY to 15.3%) led by subdued demand conditions, low priced Chinese supplies in global markets, drop in Chinese domestic demand, slump in EU markets exerting pressure on exports, sharp reduction in global pulp prices and high base effect.
- Agri business was down just 1.7% YoY to Rs39.3bn (below our est.). Segment EBIT margin up 40bps YoY to 9.1%.
- Hotels business saw a growth of 21.2% YoY to Rs6.5bn (above our est.). Segment EBIT margin stood at 19.4% (+370bps YoY).
- Overall Gross margin came in below our estimate at 57.3% (+30bps YoY but down 220bps QoQ). EBITDA margin was up just 10bps YoY at 36.5% (vs our est. 38.5%).

View & Valuation

There is minor downward revision in our FY24E/FY25E EPS. What worked well for ITC in FY22/FY23: (1) Stable taxation regime and share gains from illicit trade supported cigarette business. (2) FMCG-Others business growing at healthy rate and now also showing signs of better profitability led by structural investments of the past along with scale, innovations, growing reach, moderating inflation, etc. (3) Strong overall performance in the Hotels business post Covid recovery. Some of these factors are now normalizing and additionally, PPP business is now facing near term pressure from multiple issues. On the other hand, Agri business will see strong growth going forward as export ban comes into base from 3Q. Return ratios have improved in FY23 and are expected to improve further led by hotel business demerger and no major capex in near term. We now introduce FY26 estimates and but build a relatively subdued 10% EPS CAGR led by 7.2% revenue CAGR over FY23-FY26E. Rolling forward to Sept'25, we now get a TP of Rs500 (Rs495 earlier), maintaining our ADD rating.

Reco	: ADD
CMP	: Rs 450
Target Price	: Rs 500
Potential Return	: +11%

Stock data (as on October 19, 2023)

Nifty	19,574
52 Week h/l (Rs)	500 / 323
Market cap (Rs/USD mn)	5632489 / 67782
Outstanding Shares (mn)	12,471
6m Avg t/o (Rs mn):	4,923
Div yield (%):	3.4
Bloomberg code:	ITC IN
NSE code:	ITC

Stock performance



	1M	3M	1Y
Absolute return	-0.6%	-8.5%	+28.8%

Shareholding pattern (As of September'23 end)

Promoter	0.0%
FII+DII	85.5%
Others	14.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	500	495

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	16.5	18.6	20.1
EPS (Old)	16.8	18.7	NA
% change	-1.3	-0.7	NA

Financial Summary (Standalone)

(Rs mn)	FY24E	FY25E	FY26E
Revenue	681,526	759,797	812,613
YoY Growth (%)	3.2	11.5	7.0
EBIDTA	262,227	295,964	319,484
Margins (%)	38.5	39.0	39.3
PAT	205,652	231,052	249,190
EPS	16.5	18.6	20.1
YoY Growth (%)	9.7	12.4	7.9
ROCE (%)	39.0	42.4	44.5
ROE (%)	29.9	32.5	34.0
P/E (x)	27.2	24.2	22.5
EV/EBITDA (x)	19.8	17.5	16.1

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	165,501	164,289	172,295	0.7	(3.9)
EBITDA	60,417	63,251	62,252	(4.5)	(2.9)
EBITDA Margin (%)	36.5	38.5	36.1	(2.0)	0.4
Adjusted PAT	49,270	49,496	48,374	(0.5)	1.9

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rsmn)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Revenue	161,299	158,282	165,501	2.6	4.6	334,196	323,783	-3.1
COGS	69,380	64,155	70,642	1.8	10.1	154,148	134,798	-12.6
Gross margin %	57.0	59.5	57.3	0.3	-2.2	53.9	58.4	4.5
Employee costs	9,364	9,038	9,092	-2.9	0.6	17,985	18,130	0.8
% of sales	5.8	5.7	5.5	-0.3	-0.2	5.4	5.6	0.2
Other expenses	23,912	22,588	25,350	6.0	12.2	46,944	47,938	2.1
% of sales	14.8	14.3	15.3	0.5	1.0	14.0	14.8	0.8
EBITDA	58,643	62,501	60,417	3.0	-3.3	115,119	122,917	6.8
EBITDA margin %	36.4	39.5	36.5	0.1	-3.0	34.4	38.0	3.5
Depreciation	4,220	4,025	4,132	-2.1	2.7	8,336	8,157	-2.1
EBIT	54,423	58,476	56,284	3.4	-3.7	106,783	114,760	7.5
EBIT margin %	33.7	36.9	34.0	0.3	-2.9	32.0	35.4	3.5
Interest expense	107	107	105	-1.5	-2.0	198	212	7.2
Other income	5,069	7,087	8,956	76.7	26.4	8,196	16,044	95.8
PBT	59,385	65,456	65,135	9.7	-0.5	114,781	130,591	13.8
Tax	14,725	16,429	15,865	7.7	-3.4	28,427	32,294	13.6
Effective tax rate %	24.8	25.1	24.4	-0.4	-0.7	24.8	24.7	0.0
PAT	44,661	49,027	49,270	10.3	0.5	86,354	98,297	13.8
Adj PAT	44,661	49,027	49,270	10.3	0.5	86,354	98,297	13.8
PAT margin %	27.7	31.0	29.8	2.1	-1.2	25.8	30.4	4.5
EPS	3.6	3.9	4.0	10.3	0.5	6.9	7.9	13.8

Source: Company, YES Sec

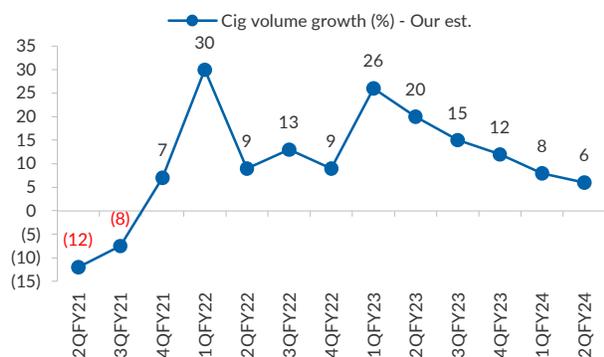
Exhibit 3: Quarterly snapshot (Standalone)

Particulars (Rsmn)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Revenue (Rsmn)								
Cigarettes	69,538	74,653	76,577	10.1	2.6	135,628	151,230	11.5
FMCG - Others	48,848	51,660	52,916	8.3	2.4	93,362	104,576	12.0
Hotels	5,360	6,002	6,494	21.2	8.2	10,909	12,496	14.5
Agri business	39,970	57,054	39,310	(1.7)	(31.1)	114,700	96,364	(16.0)
Paper and packaging	22,876	21,208	20,699	(9.5)	(2.4)	45,548	41,906	(8.0)
Revenue mix (%)								
Cigarettes	37.3	35.5	39.1	1.8	3.6	33.9	37.2	3.3
FMCG - Others	26.2	24.5	27.0	0.8	2.5	23.3	25.7	2.4
Hotels	2.9	2.9	3.3	0.4	0.5	2.7	3.1	0.3
Agri business	21.4	27.1	20.1	(1.4)	(7.0)	28.7	23.7	(5.0)
Paper and packaging	12.3	10.1	10.6	(1.7)	0.5	11.4	10.3	(1.1)
EBIT (Rsmn)								
Cigarettes	44,293	46,561	47,817	8.0	2.7	86,183	94,378	9.5
FMCG - Others	3,206	4,309	4,386	36.8	1.8	5,245	8,695	65.8
Hotels	840	1,312	1,258	-	(4.1)	1,962	2,570	-
Agri business	3,452	3,560	3,567	3.3	0.2	6,292	7,126	13.3

Paper and packaging	6,298	4,725	3,158	(49.9)	(33.2)	12,428	7,883	(36.6)
EBIT mix (%)								
Cigarettes	76.3	77.0	79.4	3.2	2.4	76.9	78.2	1.3
FMCG - Others	5.5	7.1	7.3	1.8	0.2	4.7	7.2	2.5
Hotels	1.4	2.2	2.1	0.6	(0.1)	1.7	2.1	0.4
Agri business	5.9	5.9	5.9	(0.0)	0.0	5.6	5.9	0.3
Paper and packaging	10.8	7.8	5.2	(5.6)	(2.6)	11.1	6.5	(4.6)
EBIT margin (%)								
Cigarettes	63.7	62.4	62.4	(1.3)	0.1	63.5	62.4	(1.1)
FMCG - Others	6.6	8.3	8.3	1.7	(0.1)	5.6	8.3	2.7
Hotels	15.7	21.9	19.4	3.7	(2.5)	18.0	20.6	2.6
Agri business	8.6	6.2	9.1	0.4	2.8	5.5	7.4	1.9
Paper and packaging	27.5	22.3	15.3	(12.3)	(7.0)	27.3	18.8	(8.5)

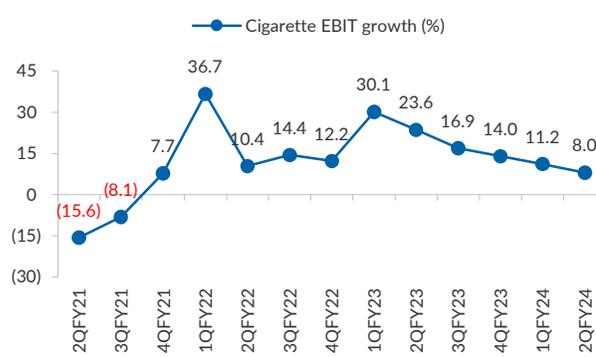
Source: Company, YES Sec

Exhibit 4: We believe cigarette volumes to have grown around 6% in 2QFY24, 1% lower than our estimate



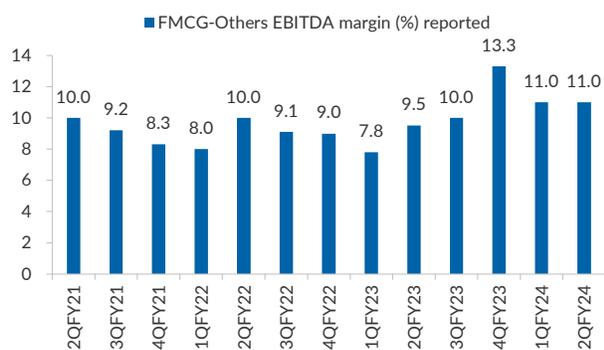
Source: Company, YES Sec

Exhibit 5: Cigarette EBIT grew 8% YoY (segment EBIT margin down 130bps YoY)



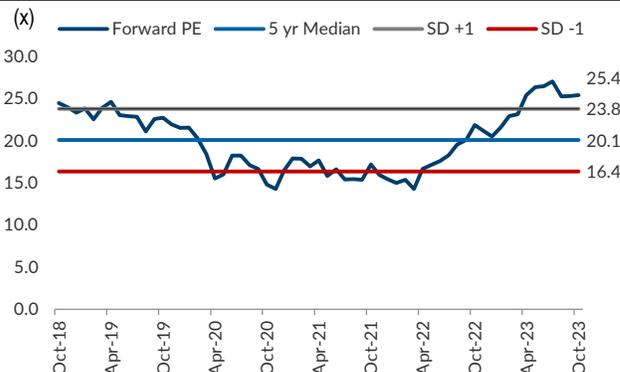
Source: Company, YES Sec

Exhibit 6: EBITDA margin for the FMCG-Others business stood at 11% in 2QFY24 (+150 bps YoY; flat QoQ)



Source: Company, YES Sec

Exhibit 7: Currently trading at ~25x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	12,323	12,428	12,428	12,428	12,428
Reserves	601,672	663,510	688,019	710,192	728,652
Net worth	613,996	675,938	700,447	722,620	741,080
Total debt	45	33	33	33	33
Lease liability	3,059	3,201	3,041	2,889	2,745
Deferred tax liability	16,671	16,211	16,211	16,211	16,211
Total liabilities	633,771	695,383	719,732	741,754	760,069
Gross block	384,914	411,077	429,077	444,077	459,077
Depreciation	163,239	179,867	196,601	214,364	232,727
Net block	221,674	231,211	232,477	229,714	226,350
Capital work-in-progress	24,423	16,815	16,815	16,815	16,815
Other long-term assets	10,770	10,682	10,682	10,682	10,682
Investments	272,823	327,206	348,744	374,028	395,821
Inventories	99,978	105,939	103,607	110,588	115,132
Debtors	19,525	23,213	24,354	27,176	29,077
Cash	38,779	38,313	45,613	46,263	50,241
Loans & advances	51,001	55,358	56,465	57,595	58,747
Other current assets	11,952	13,881	14,575	15,304	16,069
Total current assets	221,234	236,704	244,615	256,925	269,266
Creditors	42,234	43,513	41,872	45,765	48,411
Other current liabilities & provisions	74,920	83,721	91,727	100,645	110,454
Total current liabilities	117,154	127,234	133,600	146,410	158,865
Net current assets	104,081	109,470	111,015	110,516	110,401
Total assets	633,771	695,383	719,732	741,754	760,069

Source: Company, YES Sec

Note: Through this note, we introduce FY26 estimates

Exhibit 9: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	563,413	660,433	681,526	759,797	812,613
% Growth	23.9	17.2	3.2	11.5	7.0
COGS	270,469	298,219	286,089	311,767	329,217
Other expenses	103,421	122,451	133,210	152,067	163,912
Total expenses	373,890	420,670	419,300	463,833	493,129
EBITDA	189,522	239,762	262,227	295,964	319,484
% growth	22.0	26.5	9.4	12.9	7.9
EBITDA margin (%)	33.6	36.3	38.5	39.0	39.3
Other income	25,900	24,376	30,121	31,411	32,789
Interest costs	605	736	787	842	901
Depreciation	16,522	16,627	16,734	17,763	18,363
Profit before tax	198,295	246,775	274,826	308,769	333,008
Exceptional items	0	550	0	0	0
Tax	47,717	59,792	69,174	77,717	83,818
PAT	150,578	187,533	205,652	231,052	249,190
Adj PAT	150,578	186,983	205,652	231,052	249,190
Adj PAT margin (%)	25.6	27.3	28.9	29.2	29.5
% Growth	15.5	24.2	10.0	12.4	7.9

Source: Company, YES Sec

Note: Full year COGS also includes contract processing charges (included in other op. exps. in quarterly)

Exhibit 10: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	198,295	247,504	274,826	308,769	333,008
Depreciation	16,522	16,627	16,734	17,763	18,363
Other income	(13,853)	(8,640)	(30,121)	(31,411)	(32,789)
(Inc.)/dec. in working capital	1,841	(4,441)	(449)	(5,910)	(3,799)
Other items	(54,727)	(71,933)	(68,386)	(76,875)	(82,917)
Cash flow from operations	148,078	179,117	192,604	212,337	231,866
Capital expenditure (-)	(16,748)	(18,095)	(18,000)	(15,000)	(15,000)
Net cash after capex	131,330	161,022	174,604	197,337	216,866
Inc./dec. in other inv. & assets	805	(34,185)	20,680	(14,054)	(2,463)
Cash flow from investment activities	(15,943)	(52,280)	2,680	(29,054)	(17,463)
Issue of share capital (incl premium)	2,918	24,774	5,000	5,000	5,000
Dividends paid (-)	(135,471)	(151,504)	(192,550)	(187,144)	(214,878)
Other items	(818)	(574)	(434)	(489)	(548)
Cash from financial activities	(133,370)	(127,304)	(187,984)	(182,632)	(210,426)
Opening cash balance	40,015	38,779	38,313	45,613	46,263
Closing cash balance	38,779	38,313	45,613	46,263	50,241
Change in cash balance	(1,236)	(467)	7,300	650	3,978

Exhibit 11: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	12.2	15.1	16.5	18.6	20.1
Book value	49.8	54.4	56.4	58.1	59.6
DPS	11.5	15.5	15.1	17.3	19.0
Valuation (x)					
EV/sales	9.5	8.0	7.7	6.9	6.4
EV/EBITDA	27.9	21.8	19.8	17.5	16.1
P/E	36.9	29.9	27.2	24.2	22.5
P/BV	9.0	8.3	8.0	7.7	7.6
Return ratios (%)					
RoCE*	32.0	37.2	39.0	42.4	44.5
RoE	25.0	29.0	29.9	32.5	34.0
RoIC*	61.2	73.1	79.0	90.7	100.1
Profitability ratios (%)					
Gross margin	52.0	54.8	58.0	59.0	59.5
EBITDA margin	33.6	36.3	38.5	39.0	39.3
EBIT margin	30.7	33.8	36.0	36.6	37.1
PAT margin	25.6	27.3	28.9	29.2	29.5
Liquidity ratios (%)					
Current ratio	1.9	1.9	1.8	1.8	1.7
Quick ratio	1.0	1.0	1.1	1.0	1.0
Turnover ratios					
Total asset turnover ratio (x)	0.9	0.9	0.9	1.0	1.1
Fixed asset turnover ratio (x)	2.5	2.9	2.9	3.3	3.6
Inventory days	131	126	134	125	125
Debtors days	13	12	13	12	13
Creditor days	56	52	54	51	52

Source: Company, YES Sec; * ROCE & ROIC are on pre-tax basis

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Name of the Research Analyst : Vishal Punmiya

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

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