

## Consumer Staples | Q2FY24 Result Update

## Margins fail to impress; Maintain Accumulate

- ITC's Q2FY24 results came below our anticipation. Our analysis suggest that the cigarette business reported ~6% volume growth— below our estimate.
- FMCG business reported 8.4% revenue growth with 170bps improvement in EBIT margin. Revenue performance was better compared to the industry.
- Despite high base, 6% volume growth in cigarette business is encouraging. The business reported 9% sales CAGR and 5% volume CAGR over last 4-yrs. We expect volume and MS gain in the business in the near term.
- We have downward revised our FY24/25E EPS estimates by 3.3/2.2% at Rs 16.7/18.4 and introduced FY26E EPS at Rs 20.1. Twin impact of cigarette business market share re-gain from illicit trades and price increases during the quarter would help the business to grow. We have arrived at a TP of Rs 474 (SOTP valuation). However, due to recent run up in the stock price we have maintained Accumulate rating. BUY on dips.

## Results below estimate

Net sales increased 3.9% YoY to Rs 177.7bn – came 7.8% below our estimate. Our analysis suggest that the volume growth was ~6% during the quarter. EBITDA grew by 3.1% YoY to Rs 64.5bn –came 14.4% below our estimate at Rs 75.3bn. EBITDA margins contracted by 30bps to 36.3% as increase of 10/30bps in RM/other expenses was fully offset by 10bps decline in Staff cost. APAT increased by 6% YoY to Rs 49.6bn – came 15.2% below our estimate at Rs 58.4bn. Though overall results came below our estimate, strong growth across core segments helped maintain quality. Going ahead, as base of Agri business would normalize we expect sales growth to improve.

## Cigarette volume growth to moderate going ahead

Illicit cigarette sales was the biggest hurdle for the ITC's cigarette business growth. However, recent successful launch of new products are helping re-gain the lost share. During the quarter, the company has increased select product prices to mitigate RM inflation. However, due to RM inflation, EBIT margins contracted by 60bps. Going ahead, in a stable duty scenario, we believe that ITC would gain market share. However, considering high base, we believe that the volume growth would moderate to low to mid-single digit, going ahead.

## Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	1,77,745	1,71,080	3.9	1,71,645	3.6
Total Expense	1,13,202	1,08,489	4.3	1,04,944	7.9
EBITDA	64,542	62,591	3.1	66,701	(3.2)
Depreciation	4,530	4,624	(2.0)	4,425	2.4
EBIT	60,012	57,967	3.5	62,276	(3.6)
Other Income	6,649	4,547	46.2	7,223	(7.9)
Interest	99	126	(21.6)	99	(0.3)
EBT	66,562	62,388	6.7	69,400	(4.1)
Tax	17,003	15,685	8.4	17,599	(3.4)
RPAT	49,645	46,819	6.0	51,896	(4.3)
APAT	49,645	46,819	6.0	51,896	(4.3)
			(bps)		(bps)
Gross Margin (%)	60.2	60.3	(9)	61.8	(161)
EBITDA Margin (%)	36.3	36.6	(27)	38.9	(255)
NPM (%)	27.9	27.4	56	30.2	(230)
Tax Rate (%)	25.5	25.1	40	25.4	19
EBIT Margin (%)	33.8	33.9	(12)	36.3	(252)

CMP	Rs 450
Target / Upside	Rs 474 / 5%
NIFTY	19,625

## Scrip Details

Equity / FV	Rs 12,428mn / Rs 1
Market Cap	Rs 5,598bn
	USD 68.1bn
52-week High/Low	Rs 500/ 325
Avg. Volume (no)	1,12,15,100
Bloom Code	ITC IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	(8)	29
Rel to NIFTY (%)	0	(7)	17

## Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	0.0	0.0	0.0
MF/Banks/FIs	42.1	42.0	42.0
FIs	43.4	43.6	43.3
Public / Others	14.8	14.4	14.7

## Valuation (x)

	FY24E	FY25E	FY26E
P/E	26.9	24.5	22.4
EV/EBITDA	19.6	17.7	15.9
ROE (%)	29.6	29.9	29.6
RoACE (%)	28.9	29.2	28.9

## Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	729.8	786.1	850.8
EBITDA	273.8	300.0	327.4
PAT	207.8	228.2	249.8
EPS (Rs.)	16.7	18.4	20.1

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**Exhibit 1: Actual V/s DART Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	1,77,745	1,92,826	(7.8)	Lower than anticipated in agri business and lower cigarette volume growth.
EBITDA	64,542	75,368	(14.4)	Cascading effect of lower revenues and high RM cost.
EBITDA margin %	36.3	39.1	(280)	
APAT	49,559	58,456	(15.2)	Cascading effect of lower EBITDA.

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY24E			FY25E			FY26E
	New	Old	Chg. (%)	New	Old	Chg. (%)	New
Revenue	7,29,776	7,45,679	(2.1)	7,86,095	7,97,153	(1.4)	8,50,763
EBIDTA	2,73,772	2,83,354	(3.4)	2,99,998	3,07,019	(2.3)	3,27,447
EBIDTA margin (%)	37.5	38.0	(50bps)	38.2	38.5	(40bps)	38.5
PAT	2,07,772	2,14,863	(3.3)	2,28,225	2,33,421	(2.2)	2,49,768
EPS (Rs)	16.7	17.3	(3.3)	18.4	18.8	(2.2)	20.1

Source: Company DART

We have downward revised our FY24/25E revenue estimates to factor in lower than estimated growth in Q2. Further, we have lowered our EBITDA margin estimates to factor in increased tobacco prices. In line with the change in EBITDA, we have revised our APAT estimates.

### Exhibit 3: Segmental Performance

Particulars (Rs Mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY23	QoQ (%)	Remarks
<b>Cigarettes</b>						<ul style="list-style-type: none"> <li>Robust growth across markets with volume growth of ~6% in Q2.</li> <li>Reinforced market standing through innovation, premiumisation, market intervention and strong execution.</li> </ul>
Revenue	83,282	76,354	9.1	83,557	(0.3)	
EBIT	50,029	46,348	7.9	49,440	1.2	
EBIT Margin (%)	60.1	60.7	(60bps)	59.2	90bps	
<b>FMCG Others</b>						<ul style="list-style-type: none"> <li>Strong growth in stationary business led by Classmate Notebooks and Pens.</li> <li>Margin expanded 170bps led by focus on cost management actions, premiumisation, judicious pricing actions, and strategic cost management.</li> </ul>
Revenue	53,033	48,943	8.4	51,727	2.5	
EBIT	4,423	3,240	36.5	4,339	1.9	
EBIT Margin (%)	8.3	6.6	170bps	8.4	0.0	
<b>Hotels</b>						<ul style="list-style-type: none"> <li>ARR witnessed strong growth across properties, however occupancy moderated on high base, pre-planned renovations and fewer wedding dates.</li> <li>Margin expansion driven by higher RevPAR, curated packages and structural cost interventions.</li> </ul>
Revenue	6,750	5,604	20.5	6,249	8.0	
EBIT	1,330	869	53.1	1,343	(1.0)	
EBIT Margin (%)	19.7	15.5	420bps	21.5	(180bps)	
<b>Agri Business</b>						<ul style="list-style-type: none"> <li>Revenue growth was impacted due to restrictions on wheat and rice exports (ex-wheat exports revenue was up 26.4%). Further, EBIT margin growth was driven by growth in leaf tobacco exports and value-added agri products.</li> <li>Focus remains on rapidly scaling up value-added product portfolio.</li> </ul>
Revenue	39,878	40,387	(1.3)	57,270	(30.4)	
EBIT	3,588	3,559	0.8	3,524	1.8	
EBIT Margin (%)	9.0	8.8	20bps	6.2	280	
<b>Paper &amp; Packaging</b>						<ul style="list-style-type: none"> <li>Revenue growth was impacted due subdued demand. Further, softening of global pulp prices, and high base impacted performance.</li> <li>EBIT margins were impacted due to spike in raw material cost.</li> </ul>
Revenue	20,699	22,876	(9.5)	21,208	(2.4)	
EBIT	3,148	6,298	(50.0)	4,713	(33.2)	
EBIT Margin (%)	15.2	27.5	(1,230bps)	22.2	(700bps)	
<b>Total</b>						
Revenue	2,03,641	1,94,163	4.9	2,20,010	(7.4)	
EBIT	62,518	60,314	3.7	63,359	(1.3)	
EBIT Margin (%)	30.7	31.1	(40.0bps)	28.8	190	

Source: Company, DART

#### Exhibit 4: SOTP valuation

FY25E	Sales (Rs mn)	EBITDA	Basis Multiple (x)	Total EV	Rs/share	Comments
Cigarettes	3,00,623	2,14,859	EV/EBITDA	13.0	27,93,170	225 In line with global and domestic peers
Paper	1,26,631	37,068	EV/EBITDA	6.0	2,22,409	18 Multiple in line with peers
Agri	1,10,816	18,086	EV/EBITDA	7.0	1,26,600	10 In line with domestic peers
New FMCG	2,60,218	30,621	EV/Sales	7.0	18,21,527	147 In line with most FMCG companies
Hotels	53,467	6,385	EV/Sales	7.0	3,74,268	30 In line with peers
<b>Total</b>	<b>8,51,756</b>	<b>3,07,019</b>		<b>53,37,974</b>	<b>430</b>	

Gross Value

5,337,974

Net Cash

558920

Net Value (Rs mn)

5,896,894

No of Shares

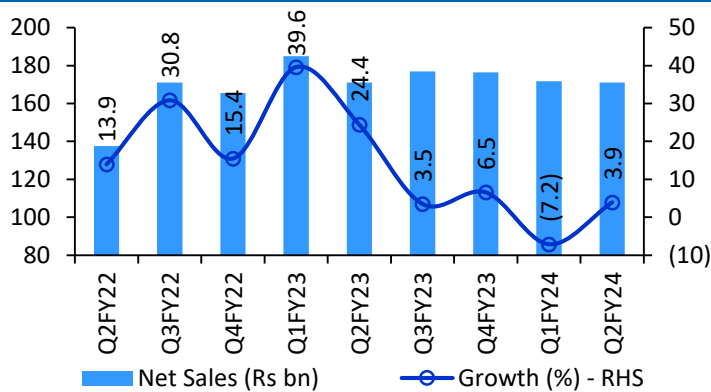
12,428

Per share (Rs)

474

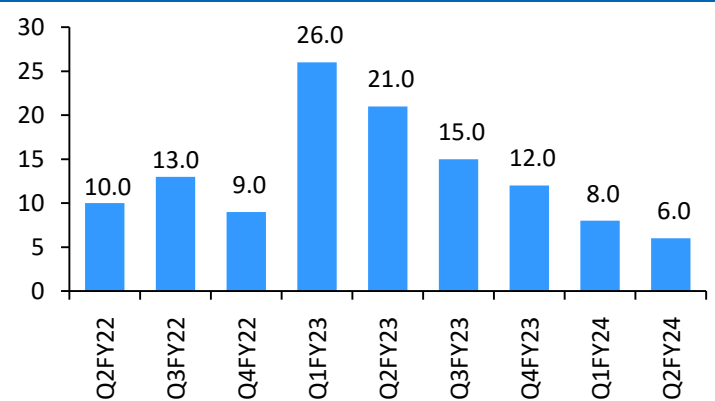
Source: Company, DART

#### Exhibit 5: Trend in Net Sales & YoY Growth (%)



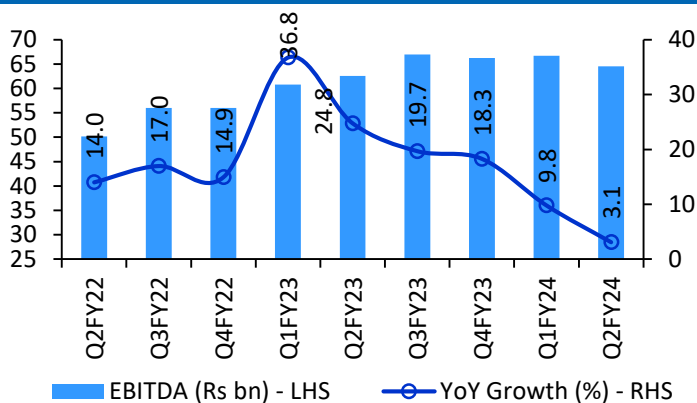
Source: Company, DART

#### Exhibit 6: Trend in Cigarette Volume Growth (%)



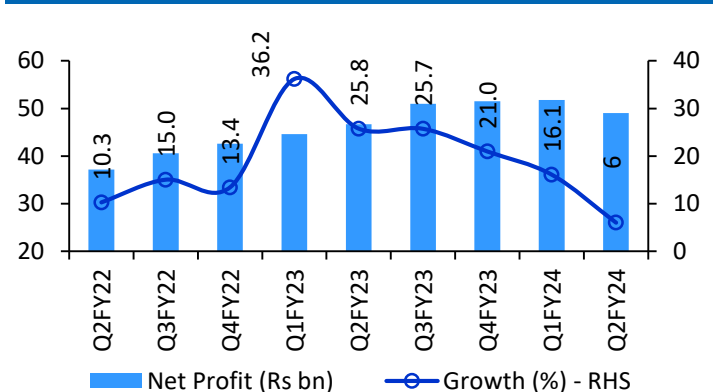
Source: Company, DART

#### Exhibit 7: Trend in EBITDA & YoY EBITDA growth (%)



Source: Company, DART

#### Exhibit 8: Trend in Net Profit & YoY Net Profit Growth (%)



Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>6,60,433</b>	<b>7,29,776</b>	<b>7,86,095</b>	<b>8,50,763</b>
<b>Total Expense</b>	<b>4,20,988</b>	<b>4,56,004</b>	<b>4,86,097</b>	<b>5,23,316</b>
COGS	2,88,802	3,09,258	3,28,837	3,53,125
Employees Cost	35,695	40,283	44,532	48,217
Other expenses	96,492	1,06,463	1,12,728	1,21,974
<b>EBIDTA</b>	<b>2,39,445</b>	<b>2,73,772</b>	<b>2,99,998</b>	<b>3,27,447</b>
Depreciation	16,627	19,483	20,543	21,603
<b>EBIT</b>	<b>2,22,817</b>	<b>2,54,289</b>	<b>2,79,455</b>	<b>3,05,844</b>
Interest	418	439	461	484
Other Income	24,376	26,922	29,418	32,164
Exc. / E.O. items	729	0	0	0
<b>EBT</b>	<b>2,47,504</b>	<b>2,80,772</b>	<b>3,08,412</b>	<b>3,37,523</b>
Tax	59,971	73,001	80,187	87,756
RPAT	1,87,533	2,07,771	2,28,225	2,49,767
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,86,804</b>	<b>2,07,771</b>	<b>2,28,225</b>	<b>2,49,767</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	12,428	12,428	12,428	12,428
Minority Interest	0	0	0	0
Reserves & Surplus	6,63,510	7,14,212	7,85,368	8,78,067
<b>Net Worth</b>	<b>6,75,938</b>	<b>7,26,640</b>	<b>7,97,796</b>	<b>8,90,495</b>
Total Debt	45	45	45	45
Net Deferred Tax Liability	16,211	21,200	21,200	21,200
<b>Total Capital Employed</b>	<b>6,92,195</b>	<b>7,47,886</b>	<b>8,19,042</b>	<b>9,11,740</b>

### Applications of Funds

Net Block	2,41,892	2,42,409	2,41,866	2,40,263
CWIP	16,815	15,133	13,620	12,258
Investments	1,63,636	1,63,636	1,63,636	1,63,636
<b>Current Assets, Loans &amp; Advances</b>	<b>4,00,275</b>	<b>4,80,806</b>	<b>5,66,706</b>	<b>6,76,975</b>
Inventories	1,05,939	1,53,873	1,63,820	1,75,896
Receivables	23,213	25,790	27,789	30,089
Cash and Bank Balances	38,313	66,256	1,38,071	2,31,759
Loans and Advances	43,241	44,538	45,874	47,250
Other Current Assets	25,998	26,778	27,582	28,409
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,30,423</b>	<b>1,54,098</b>	<b>1,66,786</b>	<b>1,81,392</b>
Payables	43,513	56,823	60,389	64,862
Other Current Liabilities	86,910	97,275	1,06,397	1,16,529
<i>sub total</i>				
Net Current Assets	2,69,852	3,26,708	3,99,920	4,95,583
<b>Total Assets</b>	<b>6,92,195</b>	<b>7,47,886</b>	<b>8,19,042</b>	<b>9,11,740</b>

E – Estimates

### Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	56.3	57.6	58.2	58.5
EBIDTA Margin	36.3	37.5	38.2	38.5
EBIT Margin	33.7	34.8	35.5	35.9
Tax rate	24.2	26.0	26.0	26.0
Net Profit Margin	28.4	28.5	29.0	29.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	43.7	42.4	41.8	41.5
Employee	5.4	5.5	5.7	5.7
Other	14.6	14.6	14.3	14.3
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	532.9	579.2	606.3	631.9
Inventory days	59	77	76	75
Debtors days	13	13	13	13
Average Cost of Debt	851.5	967.0	1015.3	1066.1
Payable days	24	28	28	28
Working Capital days	149	163	186	213
FA T/O	2.7	3.0	3.3	3.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	15.0	16.7	18.4	20.1
CEPS (Rs)	16.4	18.3	20.0	21.8
DPS (Rs)	12.2	12.6	12.6	12.6
Dividend Payout (%)	81.1	75.6	68.8	62.9
BVPS (Rs)	54.4	58.5	64.2	71.7
RoANW (%)	29.1	29.6	29.9	29.6
RoACE (%)	28.3	28.9	29.2	28.9
RoAIC (%)	35.8	38.1	41.0	44.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	450	450	450	450
P/E	30.0	26.9	24.5	22.4
Mcap (Rs Mn)	55,97,571	55,97,571	55,97,571	55,97,571
MCap/ Sales	8.5	7.7	7.1	6.6
EV	53,95,733	53,67,790	52,95,975	52,02,286
EV/Sales	8.2	7.4	6.7	6.1
EV/EBITDA	22.5	19.6	17.7	15.9
P/BV	8.3	7.7	7.0	6.3
Dividend Yield (%)	2.7	2.8	2.8	2.8
<b>(F) Growth Rate (%)</b>				
Revenue	17.2	10.5	7.7	8.2
EBITDA	26.5	14.3	9.6	9.1
EBIT	28.9	14.1	9.9	9.4
PBT	24.8	13.4	9.8	9.4
APAT	24.1	11.2	9.8	9.4
EPS	24.1	11.2	9.8	9.4

E – Estimates

## Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
<b>Profit before tax</b>	<b>2,46,775</b>	<b>2,80,772</b>	<b>3,08,412</b>	<b>3,37,523</b>
Depreciation & w.o.	16,627	19,483	20,543	21,603
Net Interest Exp	418	439	461	484
Direct taxes paid	(58,006)	(73,001)	(80,187)	(87,756)
Change in Working Capital	(4,441)	(28,912)	(1,398)	(1,975)
Non Cash	(22,257)	0	0	0
<b>(A) CF from Operating Activities</b>	<b>1,79,117</b>	<b>1,98,782</b>	<b>2,47,831</b>	<b>2,69,879</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(18,095)	(18,319)	(18,487)	(18,638)
<b>Free Cash Flow</b>	<b>1,61,022</b>	<b>1,80,463</b>	<b>2,29,345</b>	<b>2,51,241</b>
(Inc.)/ Dec. in Investments	(33,499)	0	0	0
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(51,594)</b>	<b>(18,319)</b>	<b>(18,487)</b>	<b>(18,638)</b>
Issue of Equity/ Preference	24,774	0	0	0
Inc./(Dec.) in Debt	(527)	0	0	0
Interest exp net	(418)	(439)	(461)	(484)
Dividend Paid (Incl. Tax)	(1,51,504)	(1,57,069)	(1,57,069)	(1,57,069)
Other	(314)	4,989	0	0
<b>(C) CF from Financing</b>	<b>(1,27,990)</b>	<b>(1,52,519)</b>	<b>(1,57,530)</b>	<b>(1,57,553)</b>
Net Change in Cash	(467)	27,944	71,815	93,688
<b>Opening Cash balances</b>	<b>38,779</b>	<b>38,313</b>	<b>66,256</b>	<b>1,38,071</b>
<b>Closing Cash balances</b>	<b>38,313</b>	<b>66,256</b>	<b>1,38,071</b>	<b>2,31,759</b>

E – Estimates

## Notes

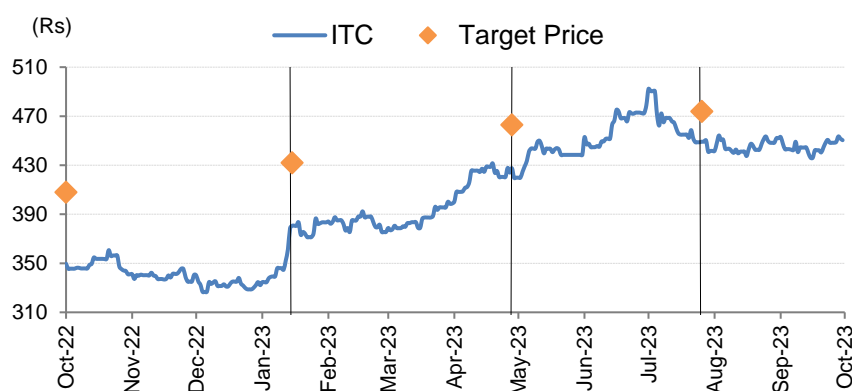


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-22	BUY	408	350
Feb-23	Accumulate	432	381
May-23	Accumulate	463	428
Aug-23	Accumulate	474	449

\*Price as on recommendation date

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