

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	ITC IN
Equity Shares (m)	12259
M.Cap.(INRb)/(USDb)	5613.1 / 67.5
52-Week Range (INR)	500 / 327
1, 6, 12 Rel. Per (%)	-3/-15/7
12M Avg Val (INR M)	5082

#### Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
Sales	715.8	777.9	845.5
Sales Gr. (%)	0.9	8.7	8.7
EBITDA	255.8	281.7	306.1
EBITDA Mrg. %	35.7	36.2	36.2
Adj. PAT	203.8	214.0	229.6
Adj. EPS (INR)	16.4	17.2	18.5
EPS Gr. (%)	9.1	5.0	7.3
BV/Sh.(INR)	56.0	57.3	58.7

#### Ratios

RoE (%)	29.4	30.4	31.9
RoCE (%)	28.2	30.4	32.5
Payout (%)	80.0	80.0	80.0

#### Valuations

P/E (x)	27.4	26.1	24.4
P/BV (x)	8.0	7.9	7.7
EV/EBITDA (x)	20.2	18.3	16.7
Div. Yield (%)	3.4	3.7	3.9

#### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	42.0	41.9	42.2
FII	43.3	43.4	43.0
Others	14.7	14.4	14.8

FII Includes depository receipts

**CMP: INR450**

**TP: INR515 (+14%)**

**Buy**

### Miss on cigarette volume; resilient FMCG delivery

- ITC's revenue growth of 1.6% in 3QFY24 came in significantly below our estimate of 5.7% growth, as cigarette volume declined 1-2% YoY (est. 2% growth) on a high base of 15% growth in 3QFY23. The four-year volume CAGR stood at 5%. The premium cigarette segment continued to outperform, while the value segment saw weakness.
- The performance of other FMCG segments remained resilient, with 7.3% revenue growth. The contribution of digital and modern trade businesses was significant at 31% of revenue. Despite rising competitive pressure (local, regional players) and weak demand, ITC sustained EBITDA margin expansion.
- The Agri business continued to be impacted by government restrictions. The Paper segment is facing challenges, including demand issues, competition from China, lower pulp prices, and higher input costs, although signs of a sectoral revival are emerging. The Hotel segment posted a robust performance, with strong growth in the average room rate (ARR) and occupancy.
- We retain our **BUY** rating on ITC as we believe its earnings visibility remains better than that of peers. Our **TP of INR515 is based on SoTP valuations.**

### Cigarette volumes miss estimates; FMCG sustains healthy trend

- **ITC's 3QFY24 net revenue grew 1.6% YoY to INR164.8b (est. INR171.6b) on a high base of last year.** EBITDA declined 3.2% YoY to INR60.2b (est. INR63.9b). PBT was flat YoY at INR67.3b (est. INR67.2b), while adj. PAT grew 10.9% YoY to INR55.8b (est. INR50.7b).
- **Cigarette volumes declined 1% YoY (est. +2%),** with a four-year CAGR steady at 5%. Gross cigarette sales grew 3.6% YoY to INR75.5b, while net sales were up by 2% YoY. Cigarette EBIT margin was largely steady at 62.6%.
- **FMCG-Others sales grew 7.6% YoY to INR52.1b** amid a challenging demand environment. EBIT grew 24.1% YoY to INR4.3b. **EBITDA margin was at 11%.**
- **Hotels business sales grew 18.2% YoY to INR8.4b,** EBIT grew 57.1% YoY to INR2.3b, and EBIT margin expanded by 680bp YoY to 27.3%.
- **Agri business sales declined 2.2% YoY to INR30.5b,** EBIT declined 13.3% YoY to INR3.4b, and EBIT margin contracted by 140bp YoY to 11.1%.
- **Paperboards business continued to see contraction,** with revenue down 9.7% YoY to INR20.8b. EBIT declined 51.2% YoY to INR3.0b, while EBIT margin contracted 1,210bp YoY to 14.2%.
- **Gross margin contracted ~40bp YoY to 58.4%** (est. 57.4%), while EBITDA margin was down 180bp YoY and flat QoQ at 36.5% (est. 37.3%).
- **In 9MFY24,** net sales declined 1.6% YoY, while EBITDA/adj. PAT grew 3.3%/12.7% YoY.
- The board declared an interim dividend of INR6.25/share.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Other takeaways**

- Cigarette business volume was down by 1-2% for the quarter, influenced by pricing and other factors. However, growth was lower due to a high base of 15% last year. The four-year CAGR stood at 4-5%.
- The premium and differentiated cigarette portfolios are performing well, contributing 20-25% to the overall portfolio. However, there is continued pressure in the value segment. The premium portfolio, which is growing faster than others, serves as a growth driver going ahead.
- In the steady state, cigarettes can sustain low to mid-single digit volume growth in the medium term.
- Cigarette channel inventory is normal.
- In other FMCG businesses, premium soap, aata, and biscuit categories performed well, while the noodles and snacks categories faced pressure from value and local competition. Anticipated value growth in FMCG suggests improved performance in this category.
- Wheat, maida, and sugar prices are on an upward trend, while edible oil prices continue to decline compared to last year.
- FMCG EBITDA margin trajectory is in line with the medium-term guidance.
- The agriculture business is focused on trading, and a new nicotine plant is set to commence operations in Mar'24.
- The paper business is under stress due to China's dumping in the international market, leading to increased pulp and wood costs. However, there are signs of improvement in this sector.

**Valuation and view**

- There are no material changes to our EPS estimates for FY24, while we cut our FY25E EPS by 6.2%.
- The resilient nature of ITC's core business amid an uncertain environment in the sector, along with a 3-4% dividend yield, makes it a good defensive bet in the ongoing volatile interest rate environment.
- The earning CAGR at the PBT level stood at 8.5% over FY18-23. We expect ITC to post a c.7% earnings CAGR over FY24-26. We reiterate our BUY rating with a TP of **INR 515, based on SoTP valuation.**

**Stand. Quarterly Performance****(INR b)**

Y/E March	FY23				FY24E				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Est. cigarette vol. gr. (%)</b>	<b>26.0</b>	<b>20.0</b>	<b>15.0</b>	<b>11.5</b>	<b>8.0</b>	<b>5.0</b>	<b>-1.0</b>	<b>0.0</b>	<b>18.1</b>	<b>3.0</b>	<b>2.0</b>	
<b>Net Sales</b>	<b>172.9</b>	<b>161.3</b>	<b>162.3</b>	<b>164.0</b>	<b>158.3</b>	<b>165.5</b>	<b>164.8</b>	<b>173.5</b>	<b>660.4</b>	<b>662.1</b>	<b>171.6</b>	-3.9%
YoY change (%)	41.5	26.7	2.3	5.6	-8.5	2.6	1.6	5.8	17.2	0.3	5.7	
<b>Gross Profit</b>	<b>88.1</b>	<b>91.9</b>	<b>95.5</b>	<b>96.0</b>	<b>94.1</b>	<b>94.9</b>	<b>96.3</b>	<b>104.1</b>	<b>371.6</b>	<b>389.4</b>	<b>98.5</b>	
Margin (%)	51.0	57.0	58.9	58.6	59.5	57.3	58.4	60.0	56.3	58.8	57.4	
<b>EBITDA</b>	<b>56.5</b>	<b>58.6</b>	<b>62.2</b>	<b>62.1</b>	<b>62.5</b>	<b>60.4</b>	<b>60.2</b>	<b>59.3</b>	<b>239.4</b>	<b>242.4</b>	<b>63.9</b>	-5.8%
Growth (%)	41.5	27.1	22.0	18.9	10.7	3.0	-3.2	-4.5	26.5	1.3	2.8	
Margins (%)	32.7	36.4	38.4	37.9	39.5	36.5	36.5	34.2	36.3	36.6	37.3	
Depreciation	4.1	4.2	4.1	4.2	4.0	4.1	4.2	3.8	16.6	16.2	4.5	
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.1	
Other Income	3.1	5.1	8.7	7.5	7.1	9.0	11.4	9.6	24.4	37.0	7.8	
<b>PBT</b>	<b>55.4</b>	<b>59.4</b>	<b>66.8</b>	<b>65.2</b>	<b>65.5</b>	<b>65.1</b>	<b>67.3</b>	<b>64.9</b>	<b>246.8</b>	<b>262.8</b>	<b>67.2</b>	0.2%
Tax	13.7	14.7	16.5	15.1	16.4	15.9	11.5	16.3	60.0	60.1	16.5	
Rate (%)	24.7	24.8	24.7	23.1	25.1	24.4	17.1	25.1	24.3	22.9	24.5	
<b>Adj PAT</b>	<b>41.7</b>	<b>44.7</b>	<b>50.3</b>	<b>50.1</b>	<b>49.0</b>	<b>49.3</b>	<b>55.8</b>	<b>48.6</b>	<b>186.8</b>	<b>202.7</b>	<b>50.7</b>	9.9%
YoY change (%)	38.4	20.8	21.0	19.6	17.6	10.3	10.9	-3.0	24.1	8.5	0.8	

E: MOFSL estimate

**Key Performance Indicators**

Y/E March	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
<b>Cig Realization Gr %</b>	<b>3.0</b>	<b>3.3</b>	<b>1.7</b>	<b>2.7</b>	<b>5.0</b>	<b>5.1</b>	<b>4.6</b>
<b>2Y average growth %</b>							
Cig Volumes	28.3	14.8	14.0	10.3	17.0	12.5	7.0
Sales	35.0	16.5	13.3	7.6	16.5	14.7	1.9
EBITDA	46.2	20.4	20.1	17.8	26.1	15.0	9.4
PAT	33.5	17.6	16.9	15.7	28.0	15.6	16.0
<b>% sales</b>							
COGS	49.0	43.0	41.1	41.4	40.5	42.7	41.6
Others	18.3	20.6	20.5	20.7	20.0	20.8	21.9
Depreciation	2.4	2.6	2.5	2.6	2.5	2.5	2.5
<b>YoY change %</b>							
COGS	46.5	27.4	-13.6	-6.7	-24.3	1.8	2.7
Others	29.8	24.6	9.6	12.2	-0.1	3.5	8.4
Other income	-27.1	-25.1	7.6	10.7	126.7	76.7	30.2
EBIT	45.6	29.2	23.9	21.1	11.7	3.4	-3.6

E: MOFSL estimate

**Consolidated Performance**

- In 3QFY24, sales grew by 1.8% YoY to INR180.2b. EBITDA declined by 3% YoY to INR65.0b. Adj. PAT increased 6.7% YoY to INR53.4b.
- EBITDA margin contracted 180bp YoY to 36.1%.
- In 9MFY24, net sales declined by 0.6% YoY. EBITDA/Adj. PAT grew 3.1%/9.5% YoY.

**Consol. Quarterly Performance****(INR b)**

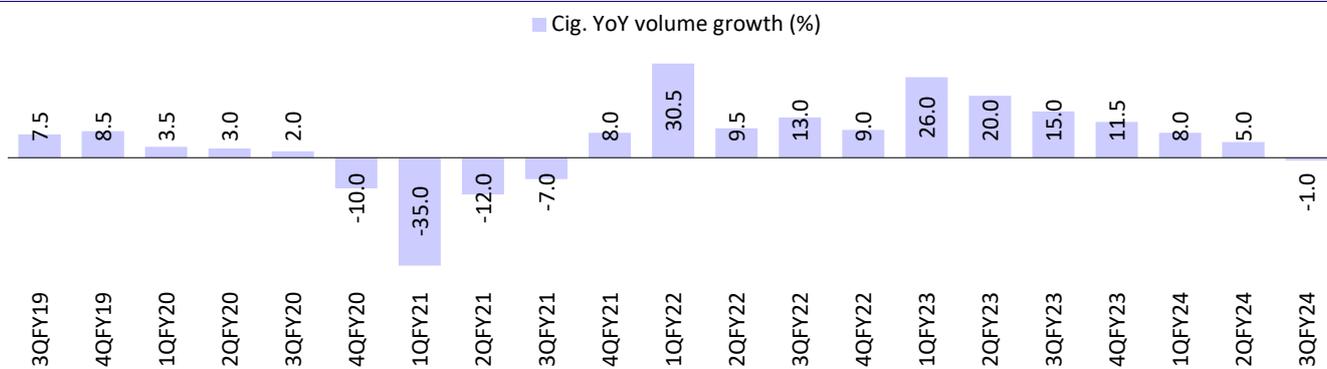
Y/E March	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
<b>Est. cigarette vol. gr. (%)</b>	<b>26.0</b>	<b>20.0</b>	<b>15.0</b>	<b>11.5</b>	<b>8.0</b>	<b>5.0</b>	<b>2.0</b>
<b>Net Sales</b>	<b>184.9</b>	<b>171.1</b>	<b>177.0</b>	<b>176.3</b>	<b>171.6</b>	<b>177.7</b>	<b>180.2</b>
YoY change (%)	39.6	24.4	3.5	6.5	-7.2	3.9	1.8
<b>Gross Profit</b>	<b>99.4</b>	<b>103.2</b>	<b>108.1</b>	<b>108.6</b>	<b>106.1</b>	<b>107.1</b>	<b>109.8</b>
Margin (%)	53.7	60.3	61.1	61.6	61.8	60.2	60.9
<b>EBITDA</b>	<b>60.8</b>	<b>62.6</b>	<b>67.0</b>	<b>66.2</b>	<b>66.7</b>	<b>64.5</b>	<b>65.0</b>
Growth (%)	36.8	24.7	19.8	18.3	9.8	3.1	-3.0
Margins (%)	32.9	36.6	37.9	37.6	38.9	36.3	36.1
Depreciation	4.4	4.6	4.5	4.6	4.4	4.5	4.6
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Income	3.2	4.5	6.0	6.1	7.2	6.6	6.6
<b>PBT</b>	<b>59.5</b>	<b>62.4</b>	<b>68.4</b>	<b>67.6</b>	<b>69.4</b>	<b>66.6</b>	<b>66.9</b>
Tax	14.9	15.7	17.7	16.1	17.6	17.0	12.8
Rate (%)	25.0	25.1	25.9	23.8	25.4	25.5	19.2
<b>Adj PAT</b>	<b>43.9</b>	<b>46.2</b>	<b>50.1</b>	<b>51.2</b>	<b>51.0</b>	<b>49.0</b>	<b>50.1</b>
YoY change (%)	34.0	24.4	23.4	22.0	16.3	6.0	0.1

E: MOFSL estimate;

**Cigarette volumes down ~1% YoY in 3QFY24**

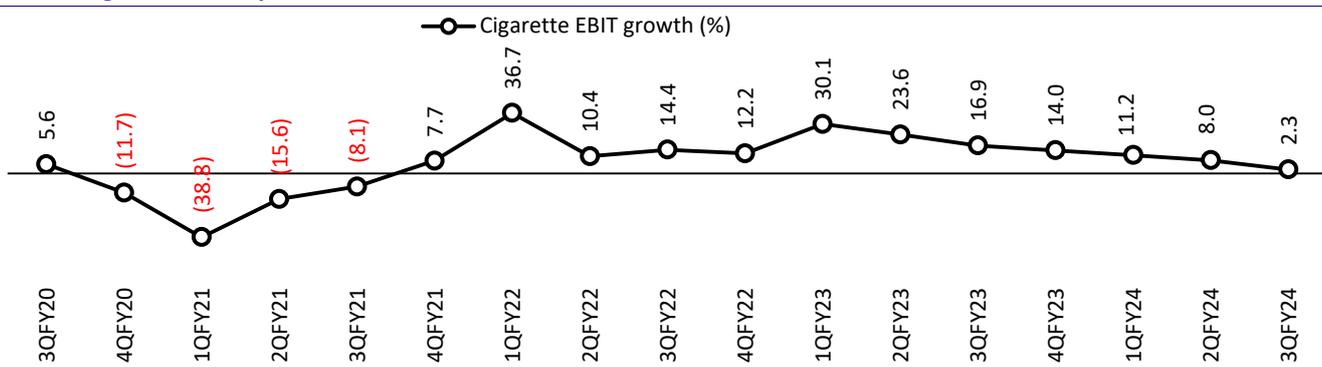
- ITC’s net cigarette revenue grew 3.6% YoY to INR75.5b, with volume down ~1% YoY on a base of 15% growth. Average three-year volume CAGR stood at 11.5% in 3QFY24.
- Cigarette business experienced consolidation after a period of growth.
- The company addresses illicit trade, strengthens market position through portfolio innovation, and enhances product availability.
- A successful performance of differentiated variants and premium segments.
- Managed cost challenges (leaf tobacco, inputs, taxes) through improved mix, strategic cost management, and calibrated pricing.
- Stability in cigarette taxes, backed by enforcement actions, facilitates volume recovery, boosting demand for Indian tobaccos and revenue to the exchequer.
- EBIT in Cigarettes grew 2.3% YoY to INR47.3b. Net EBIT margin for the segment contracted ~80bp YoY to 62.6% in 3QFY24.

**Exhibit 1: Cigarette volumes down ~1% YoY in 3QFY24**



Source: Company, MOFSL

**Exhibit 2: Cigarette EBIT up 2.3% YoY to INR47.3b in 3QFY24**



Source: Company, MOFSL

**Exhibit 3: Cigarette sales salience rose 120bp QoQ**

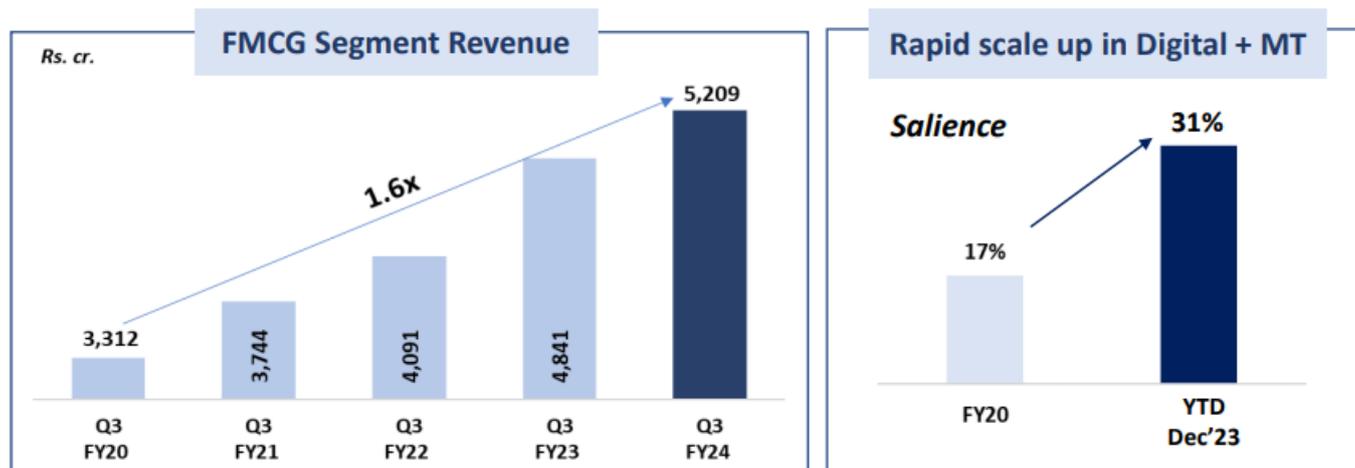
Revenue contribution (%)	3Q FY21	4Q FY21	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24
Cigarettes	40.9	39.4	35.0	38.7	35.0	36.8	30.9	37.3	39.9	39.0	35.5	39.1	40.3
FMCG - Others	27.9	24.8	25.4	27.7	23.0	23.6	20.8	26.2	26.5	26.2	24.5	27.0	27.8
Hotels	1.8	1.9	0.9	2.0	2.7	2.2	2.6	2.9	3.9	4.1	2.9	3.3	4.5
Agri. business	18.5	22.7	27.9	19.0	27.9	24.9	35.0	21.4	17.1	19.0	27.1	20.1	16.3
Paper and Packaging	11.0	11.1	10.8	12.6	11.5	12.5	10.6	12.3	12.6	11.8	10.1	10.6	11.1
<b>Total</b>	<b>100.0</b>												

Source: Company, MOFSL

### FMCG – Others: Strong growth in overall portfolio

- Segmental sales grew 7.6% YoY to INR52.1b, led by staples, dairy, beverages, fragrances, personal wash, homecare, incense sticks, and notebooks.
- EBIT jumped 24.1% YoY to INR4.3b in 3QFY24. EBIT margin expanded 110bp YoY to 8.3%.
- Growth in both traditional and emerging channels was intact, aided by channel-specific plans, collaborations, format-based assortments, and category-specific sell-out strategies.
- High competitive intensity was observed in categories such as biscuits, snacks, noodles, and popular soaps from both local and regional players.
- Strategic portfolio enhancement focuses on agile and purposeful innovation, addressing evolving consumer needs and accelerating premiumization.
- Despite a decline in some commodity prices, the cost remained elevated; Its profit-driven strategy includes premiumization, supply chain optimization, digital initiatives, strategic cost management, and judicious pricing actions.
- The transformation of trade marketing and distribution into a smart omni-channel network with six direct-to-consumer platforms, including Classmateshop.com, Dermafique.com, and Aashirvaad.com/Meri Chakki.
- Digitally powered **eB2B platform, UNNATI app**, covers 640k outlets, offering direct engagement, superior analytics, personalized recommendations, and deeper brand engagement, now available in multiple vernacular languages.

Exhibit 4: Increasing salience of new age channels



Source: Company Presentation

### Paperboards, Paper, and Packaging

- Paper and Paperboard sales declined 9.7% YoY to INR20.8b in 3QFY24.
- EBIT declined 51.2% YoY to INR3.0b, while EBIT margin contracted 1,210bp YoY to 14.2%. It was hit primarily by a sharp drop in realizations and increased cost of inputs (mainly wood and coal).
- Subdued consumer demand and a muted festive season impacted customer offtake. Also, export markets were affected by low-priced Chinese supplies.
- Fine paper demand remained firm, while Décor paper showed strong performance.

- Strategic interventions in import pulp substitution, high-pressure recovery boiler, digital initiatives, and a cost-competitive fiber chain partially mitigated inflationary impact.
- Record-high in-house chemical pulp production was achieved with recent investments in pulp mill capacity expansion.
- The packaging and printing business focuses on new business development, especially in consumer electronics, QSR, and personal care products.
- Capacity utilization at the newly commissioned Nadiad unit in Gujarat is being ramped up to efficiently serve proximal markets.
- Sustainable paperboards/packaging solutions see strong growth with innovation platforms.
- Its wholly owned subsidiary, ITC Fibre Innovations, is setting up a manufacturing facility for premium moulded fiber products in Badiyakhedi, Madhya Pradesh, which is expected to be commissioned by FY24 end.

### Agri Business

- In 3QFY24, revenue declined 2.2% YoY to INR30.5b. Excluding wheat and rice exports, revenue grew 14.2% YoY. The segment recorded a 13.3% YoY decline in EBIT to INR3.4b, while EBIT margin contracted 140bp YoY to 11.1%.
- A challenging operating environment due to government restrictions for food security and inflation control is impacting agri business opportunities.
- Increased capacity utilization of the new spices processing facility in Guntur, focusing on rapid growth in spice exports to food-safe markets.
- Commissioning of a state-of-the-art facility by IIVL, a subsidiary, for manufacturing and exporting nicotine and nicotine derivative products; exports to EU expected in 4QFY24.
- The Climate Smart Agriculture program spans over 2.3m acres and involves approx. 750k farmers across the country.
- Growth in leaf tobacco and value-added agri products is propelled by strong customer relationships and agile execution with the help of ITCMAARS, a crop-agnostic 'phygital' AgriTech platform, across nine states, with over 1,600 farmer producer organizations (FPOs) and 1.14m farmers added to the network

### Hotels

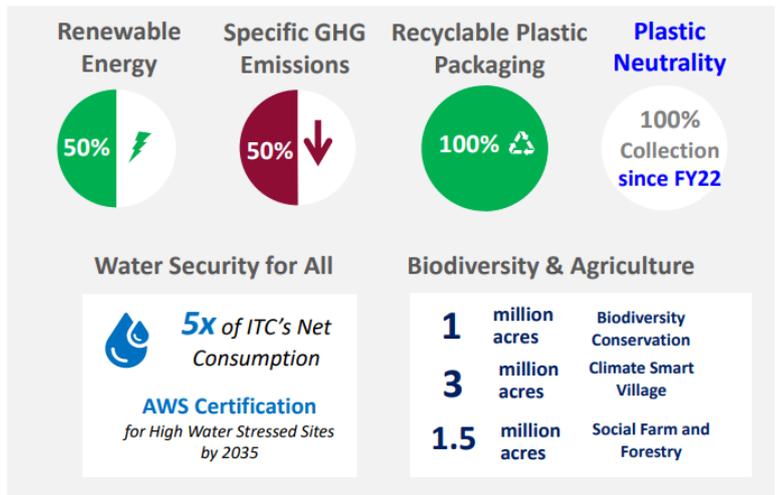
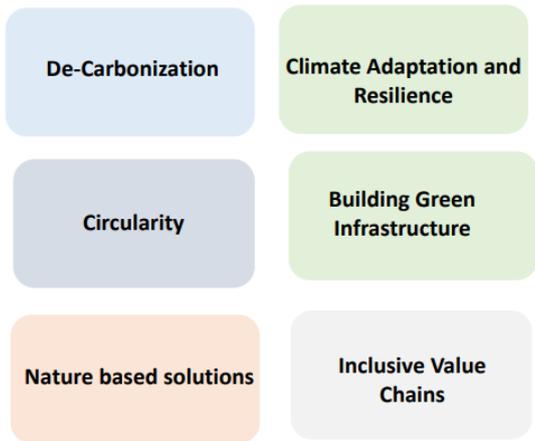
- Revenue grew 18.2% YoY to INR8.4b in 3QFY24. Segment EBITDA margin expanded 470bp YoY to 36.2%. Segmental EBIT grew 57.1% YoY to INR2.3b.
- The margin expansion was driven by higher RevPAR, operating leverage, and structural cost interventions.
- The segment saw strong growth in ARRs and occupancies across properties, boosted by retail/MICE segments and major events like ICC Cricket World Cup.
- Welcomhotel Chennai reopened in Jan'24 after a comprehensive renovation, certified as a LEED Platinum and LEED Zero Carbon hotel.
- 'Asset-right' strategy emphasized with the addition of three new properties: Fortune Park, Aligarh; Fortune Park, Tiruppur; and Fortune Park East Delhi, Vivek Vihar. Total 22 properties were added in the last 24 months.
- Strengthened pipeline of managed properties across Welcomhotel, Mementos, Storii, Fortune, and WelcomHeritage brands.

**ITC Infotech**

- ITC Infotech delivered revenue growth of 11% YoY to INR9.7b. EBITDA grew 15.6% QoQ to INR1.9b with an EBITDA margin of ~19.9%.
- Investments are being made toward capability building in strategic focus areas and infrastructure.
- There is a strong pipeline in healthy signings of total contract value.

**Exhibit 5: ITC’s contribution to sustainable development**

**Strategic Interventions to Combat Climate Change**



*Proactively work towards achieving 'Net Zero' emission status*

**Supporting Sustainable Livelihoods: From 6 million to 10 million**

Source: Company Presentation

## Key exhibits

## Exhibit 6: Segmental Information

Standalone segmental Information	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
<b>Net sales (INR b)</b>									
Cigarettes	62.4	64.4	66.1	69.5	72.9	73.6	74.7	76.6	75.5
FMCG - Others	40.9	41.4	44.5	48.8	48.4	49.4	51.7	52.9	52.1
Hotels	4.7	3.9	5.5	5.4	7.1	7.8	6.0	6.5	8.4
Agri business	49.6	43.7	74.7	40.0	31.2	35.8	57.1	39.3	30.5
Paper and packaging	20.5	21.8	22.7	22.9	23.1	22.2	21.2	20.7	20.8
<b>Sales growth (YoY)</b>									
Cigarettes	13.6	10.0	29.0	23.3	16.7	14.2	13.0	10.1	3.6
FMCG - Others	9.3	12.3	19.5	21.0	18.4	19.4	16.1	8.3	7.6
Hotels	101.3	35.4	336.2	81.8	50.5	100.6	8.1	21.2	18.2
Agri business	100.0	29.6	82.7	44.0	(37.1)	(18.0)	(23.7)	(1.7)	(2.2)
Paper and packaging	38.5	31.8	43.3	25.0	12.7	1.8	(6.5)	(9.5)	(9.7)
<b>Volume growth (YoY)</b>									
Cigarettes	13.0	9.0	26.0	20.0	15.0	11.5	8.0	5.0	(1.0)
<b>EBIT (INR b)</b>									
Cigarettes	39.5	41.1	41.9	44.3	46.2	46.9	46.6	47.8	47.3
FMCG - Others	2.4	2.4	2.0	3.2	3.5	5.0	4.3	4.4	4.3
Hotels	0.5	(0.3)	1.1	0.8	1.5	2.0	1.3	1.3	2.3
Agri business	3.0	2.4	2.8	3.5	3.9	3.1	3.6	3.6	3.4
Paper and packaging	4.5	4.5	6.1	6.3	6.1	4.5	4.7	3.2	3.0
<b>EBIT growth (YoY)</b>									
Cigarettes	14.4	12.2	30.1	23.6	16.9	14.0	11.2	8.0	2.3
FMCG - Others	1.1	25.1	17.6	17.9	43.9	112.6	111.3	36.8	24.1
Hotels	L/P	#	L/P	L/P	189.1	L/P	17.0	49.8	57.1
Agri business	50.6	28.5	45.1	16.6	32.6	25.9	25.3	3.3	(13.3)
Paper and packaging	57.3	39.1	56.0	54.0	35.2	(1.0)	(22.9)	(49.9)	(51.2)
<b>EBIT margin (%)</b>									
Cigarettes	63.3	63.9	63.4	63.7	63.4	63.7	62.4	62.4	62.6
FMCG - Others	5.9	5.7	4.6	6.6	7.2	10.1	8.3	8.3	8.3
Hotels	10.7	(8.8)	20.2	15.7	20.5	25.5	21.9	19.4	27.3
Agri business	6.0	5.6	3.8	8.6	12.5	8.6	6.2	9.1	11.1
Paper and packaging	21.9	20.6	27.0	27.5	26.3	20.0	22.3	15.3	14.2
<b>EBIT margin change (%)</b>									
Cigarettes	0.5	1.3	0.5	0.2	0.1	(0.1)	(1.0)	(1.3)	(0.8)
FMCG - Others	(0.5)	0.6	(0.1)	(0.2)	1.3	4.4	3.8	1.7	1.1
Hotels	39.3	5.2	139.2	32.0	9.8	34.3	1.7	3.7	6.8
Agri business	(2.0)	(0.0)	(1.0)	(2.0)	6.6	3.0	2.4	0.4	(1.4)
Paper and packaging	2.6	1.1	2.2	5.2	4.4	(0.6)	(4.8)	(12.3)	(12.1)

## Valuation and view

## What has happened over the last 10 years?

- ITC's financial performance over the last 10 years has been a story of two halves.
- The first half (FY13-18) witnessed modest growth, with sales, EBITDA, PBT, and PAT registering a 6-8% CAGR due to factors such as increased taxation and the impact of GST.
- However, in the subsequent five years (FY19-23), the company experienced improvements, achieving a 10.1% CAGR in sales, a 9% CAGR in EBITDA, and an 11.6% CAGR in PAT. This growth in the latter period resulted in a stabilization of taxes, stemming from the progress observed in the preceding five years.

**Our view**

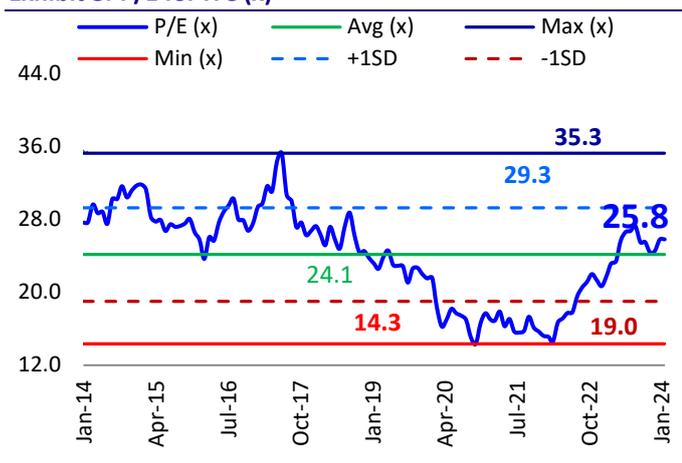
- There are no material changes to our EPS estimates for FY24, but we cut our FY25E EPS by 6.2%.
- The resilient nature of ITC’s core business amid an uncertain environment in the sector, along with a 3-4% dividend yield, makes it a good defensive bet in the ongoing volatile interest rate environment.
- The earning CAGR at the PBT level stood at 8.5% over FY18-23. We expect ITC to post a 6.4% earnings CAGR over FY23-25. We believe the premium multiples are justified, given its strong visibility over the medium term and the defensive nature of its business, especially in a volatile macro environment. We reiterate our BUY rating with a TP of **INR 515, based on SoTP valuation.**

**Exhibit 7: We reduce our EPS estimate for FY25 by 6.2% while no change in FY24.**

	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	715.8	777.9	676.8	745.8	5.8	4.3
EBITDA	255.8	281.7	256.1	285.7	-0.1	-1.4
PAT	203.8	214.0	202.6	228.1	0.6	-6.2

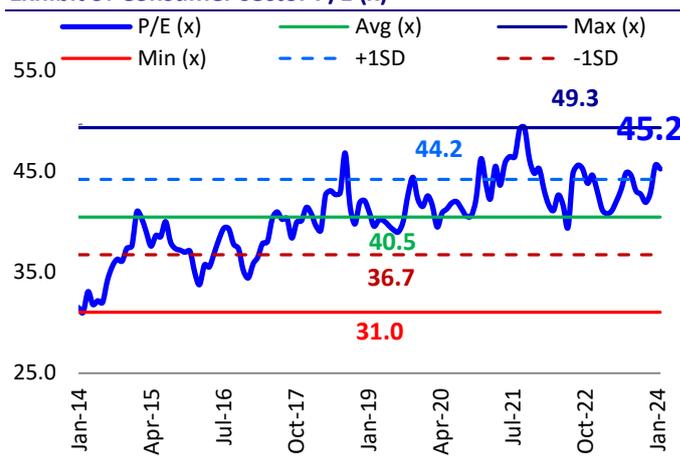
Source: Company, MOFSL

**Exhibit 8: P/E for ITC (x)**



Source: Bloomberg, MOFSL

**Exhibit 9: Consumer sector P/E (x)**



Source: Bloomberg, MOFSL

## Financials and valuations

Income Statement								(INR b)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Net Sales</b>	<b>498.6</b>	<b>513.9</b>	<b>531.6</b>	<b>652.0</b>	<b>765.2</b>	<b>772.9</b>	<b>835.0</b>	<b>904.1</b>
Operational Income	15.1	19.9	38.8	45.4	55.8	57.1	57.1	58.6
<b>Total Revenue</b>	<b>483.5</b>	<b>494.0</b>	<b>492.7</b>	<b>606.7</b>	<b>709.4</b>	<b>715.8</b>	<b>777.9</b>	<b>845.5</b>
Change (%)	11.3	2.2	-0.3	23.1	16.9	0.9	8.7	8.7
<b>Gross Profit</b>	<b>309.3</b>	<b>320.6</b>	<b>291.4</b>	<b>342.8</b>	<b>419.3</b>	<b>425.9</b>	<b>466.7</b>	<b>507.3</b>
Margin (%)	64.0	64.9	59.1	56.5	59.1	59.5	60.0	60.0
Other operating expenditure	125.3	128.0	121.4	136.2	162.7	170.1	185.0	201.1
<b>EBITDA</b>	<b>184.1</b>	<b>192.6</b>	<b>170.0</b>	<b>206.6</b>	<b>256.6</b>	<b>255.8</b>	<b>281.7</b>	<b>306.1</b>
Change (%)	11.7	4.6	-11.7	21.5	24.2	-0.3	10.2	8.7
Margin (%)	38.1	39.0	34.5	34.1	36.2	35.7	36.2	36.2
Depreciation	14.0	16.4	16.5	17.3	18.1	18.2	19.2	20.2
Int. and Fin. Charges	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5
Other Inc. - Recurring	21.7	26.0	26.3	18.4	19.8	27.3	29.8	32.1
<b>Profit before Taxes</b>	<b>191.4</b>	<b>201.6</b>	<b>179.5</b>	<b>207.2</b>	<b>257.9</b>	<b>264.5</b>	<b>291.8</b>	<b>317.6</b>
Change (%)	12.7	5.3	-11.0	15.5	24.5	2.5	10.4	8.8
Margin (%)	39.6	40.8	36.4	34.2	36.4	36.9	37.5	37.6
Tax	61.9	48.5	44.6	53.1	64.5	64.6	73.1	78.5
Deferred Tax	1.2	-4.0	0.9	-0.7	-0.1	0.0	0.0	0.0
Tax Rate (%)	33.0	22.0	25.4	25.3	25.0	24.4	25.0	24.7
<b>Profit after Taxes</b>	<b>124.6</b>	<b>152.7</b>	<b>130.3</b>	<b>150.6</b>	<b>186.8</b>	<b>203.8</b>	<b>214.0</b>	<b>229.6</b>
Change (%)	15.3	22.5	-14.6	15.5	24.1	9.1	5.0	7.3
Margin (%)	25.8	30.9	26.4	24.8	26.3	28.5	27.5	27.2
<b>Reported PAT</b>	<b>127.9</b>	<b>146.0</b>	<b>131.6</b>	<b>152.4</b>	<b>191.4</b>	<b>203.8</b>	<b>214.0</b>	<b>229.6</b>

Balance Sheet								(INR b)	(INR b)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E	
Share Capital	12.3	12.3	12.3	12.3	12.4	12.4	12.4	12.4	
Reserves	579.2	640.4	585.6	602.4	679.1	684.1	699.2	717.6	
<b>Net Worth</b>	<b>591.4</b>	<b>652.7</b>	<b>597.9</b>	<b>614.8</b>	<b>691.6</b>	<b>696.5</b>	<b>711.7</b>	<b>730.0</b>	
Loans	0.1	0.1	0.1	0.1	0.4	0.4	0.5	0.5	
Deferred Liability	19.9	15.7	16.8	16.1	15.8	15.8	15.8	15.8	
<b>Capital Employed</b>	<b>611.4</b>	<b>668.5</b>	<b>614.8</b>	<b>630.9</b>	<b>707.7</b>	<b>712.7</b>	<b>727.9</b>	<b>746.3</b>	
Gross Block	324.4	364.2	396.5	423.4	457.6	476.6	503.3	530.0	
Less: Accum. Depn.	130.6	147.0	163.5	180.8	198.9	217.1	236.3	256.5	
<b>Net Fixed Assets</b>	<b>193.8</b>	<b>217.2</b>	<b>233.1</b>	<b>242.6</b>	<b>258.7</b>	<b>259.6</b>	<b>267.1</b>	<b>273.6</b>	
Capital WIP	41.3	32.5	40.0	32.0	29.8	23.9	19.1	15.3	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Investments</b>	<b>250.4</b>	<b>286.6</b>	<b>248.7</b>	<b>248.4</b>	<b>294.2</b>	<b>309.2</b>	<b>324.2</b>	<b>339.2</b>	
Current	133.5	179.5	148.5	122.6	172.3	187.3	202.3	217.3	
Non-current	117.0	107.2	100.2	125.8	121.8	121.8	121.8	121.8	
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Curr. Assets, L&amp;A</b>	<b>231.8</b>	<b>236.8</b>	<b>210.2</b>	<b>239.2</b>	<b>275.6</b>	<b>278.3</b>	<b>293.0</b>	<b>313.0</b>	
Inventory	79.4	89.7	104.0	108.6	117.7	117.5	128.7	139.8	
Account Receivables	40.4	25.6	25.0	24.6	29.6	29.8	32.4	35.2	
Cash and Bank Balance	41.5	72.8	41.0	36.8	48.8	53.5	50.0	51.1	
Others	70.5	48.7	40.2	69.2	79.5	77.4	81.9	86.8	
<b>Curr. Liab. and Prov.</b>	<b>102.5</b>	<b>100.8</b>	<b>113.8</b>	<b>127.6</b>	<b>146.8</b>	<b>151.1</b>	<b>164.6</b>	<b>179.5</b>	
Account Payables	35.1	36.3	43.2	44.2	46.6	47.7	51.8	56.3	
Other Liabilities	62.7	59.9	65.3	75.7	98.6	93.3	101.1	109.8	
<b>Net Current Assets</b>	<b>129.3</b>	<b>136.0</b>	<b>96.4</b>	<b>111.6</b>	<b>128.8</b>	<b>127.2</b>	<b>128.4</b>	<b>133.5</b>	
<b>Application of Funds</b>	<b>614.9</b>	<b>672.3</b>	<b>618.2</b>	<b>634.6</b>	<b>711.5</b>	<b>719.8</b>	<b>738.8</b>	<b>761.5</b>	

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>10.2</b>	<b>12.4</b>	<b>10.6</b>	<b>12.2</b>	<b>15.0</b>	<b>16.4</b>	<b>17.2</b>	<b>18.5</b>
Cash EPS	11.3	13.8	11.9	13.6	16.5	17.9	18.8	20.1
BV/Share	48.2	53.1	48.6	49.9	55.6	56.0	57.3	58.7
DPS	5.8	10.2	10.8	11.5	15.5	15.5	16.5	17.5
Payout %	66	85	101	93	101	80	80	80
<b>Valuation (x)</b>								
P/E	44.3	36.2	42.5	36.8	29.9	27.4	26.1	24.4
Cash P/E	39.8	32.7	37.7	33.0	27.3	25.2	24.0	22.4
EV/Sales	10.5	10.0	9.8	8.0	6.8	6.7	6.2	5.7
EV/EBITDA	28.4	26.8	30.7	25.3	20.2	20.2	18.3	16.7
P/BV	9.3	8.5	9.3	9.0	8.1	8.0	7.9	7.7
Dividend Yield (%)	1.3	2.3	2.4	2.6	3.4	3.4	3.7	3.9
<b>Return Ratios (%)</b>								
RoE	22.3	24.5	20.8	24.8	28.6	29.4	30.4	31.9
RoCE	22.2	24.6	20.9	24.9	29.0	28.2	30.4	32.5
RoIC	44.0	49.5	40.8	47.2	55.2	54.3	59.6	63.7
<b>Working Capital Ratios</b>								
Debtor (Days)	25	24	19	15	14	15	15	15
Asset Turnover (x)	0.8	0.8	0.9	1.0	1.1	1.1	1.1	1.2

### Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
						(INR b)	(INR b)	
OP/(loss) before Tax	191.5	200.3	179.5	207.2	259.2	271.1	290.3	311.9
Financial other income	-4.2	-8.0	-0.1	0.2	-3.0	0.5	0.5	0.6
Depreciation and Amort.	14.0	16.4	16.5	17.3	18.1	18.2	19.2	20.2
Interest Paid	-12.7	-14.7	-15.3	-6.9	-15.3	-7.8	-8.5	-9.2
Direct Taxes Paid	-58.0	-50.2	-44.6	-53.1	-62.5	-64.6	-73.1	-78.5
Incr in WC	-4.8	3.0	6.1	-18.5	-7.7	6.4	-4.8	-4.0
<b>CF from Operations</b>	<b>125.8</b>	<b>146.9</b>	<b>142.0</b>	<b>146.3</b>	<b>188.8</b>	<b>223.7</b>	<b>223.7</b>	<b>241.0</b>
Other items	-27.4	44.7	14.6	3.5	24.0	7.9	8.5	9.2
Incr Decr in FA	31.4	24.1	39.9	18.8	26.9	13.1	21.9	22.9
<b>Free Cash Flow</b>	<b>94.4</b>	<b>122.8</b>	<b>102.2</b>	<b>127.5</b>	<b>161.8</b>	<b>210.7</b>	<b>201.8</b>	<b>218.1</b>
Pur of Investments	-14.2	54.4	-37.9	-0.3	43.7	15.0	15.0	15.0
<b>CF from Invest.</b>	<b>-44.6</b>	<b>-33.8</b>	<b>12.7</b>	<b>-15.0</b>	<b>-46.7</b>	<b>-20.2</b>	<b>-28.5</b>	<b>-28.7</b>
Issue of shares	9.7	6.3	0.0	0.0	24.8	0.0	0.0	0.0
Incr in Debt	-0.1	0.0	0.0	0.0	-0.6	0.0	0.0	0.0
Net Interest Paid	1.0	0.4	0.0	0.0	0.4	0.0	0.0	0.0
Dividend Paid	77.3	87.1	186.5	135.6	154.0	198.8	198.8	211.3
Others	0.0	-0.5	0.0	0.0	0.1	0.0	0.0	0.0
<b>CF from Fin. Activity</b>	<b>-68.7</b>	<b>-81.8</b>	<b>-186.4</b>	<b>-135.6</b>	<b>-130.1</b>	<b>-198.8</b>	<b>-198.8</b>	<b>-211.2</b>
<b>Incr of Cash</b>	<b>12.5</b>	<b>31.3</b>	<b>-31.7</b>	<b>-4.3</b>	<b>12.0</b>	<b>4.7</b>	<b>-3.5</b>	<b>1.1</b>
Add: Opening Balance	29.0	41.5	72.8	41.0	36.8	48.8	53.5	50.0
<b>Closing Balance</b>	<b>41.5</b>	<b>72.8</b>	<b>41.0</b>	<b>36.8</b>	<b>48.8</b>	<b>53.5</b>	<b>50.0</b>	<b>51.1</b>

E: MOFSL Estimates

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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