



Short Term Hiccup; Maintain BUY

Est. Vs. Actual for Q3FY24: Revenue – **MISS**; EBITDA – **MISS**; PAT – **BEAT**

Changes in Estimates post Q3FY24

FY25E/FY26E – Revenue: -9%/-9%; EBITDA: -10%/-8%; PAT: -6%/-4%

Recommendation Rationale

- **Miss on the operating front:** The company's Q3FY24 results were below estimates on the operating front. Revenue grew by a mere 1% YoY (vs. our estimates of 3%), owing to subdued performance in cigarettes (flat volume growth) due to a high base and subdued performance in the agro/paperboard business. While the FMCG/hotel business maintained momentum, EBITDA declined by 3% YoY owing to higher subdued gross margins performance and higher Opex. PAT grew by 11% owing to higher other income, up 30% YoY, and lower taxes. The company announced an interim dividend of Rs 6.25/share.
- We believe ITC is likely to face near-term pressure as the demand environment is expected to remain challenging, as witnessed by most FMCG companies. However, its long-term growth outlook remains strong as most businesses (excluding Agri/Paper) are on track: – 1) Growth in cigarette volume has normalised but it remained stable owing to stable taxation, market share gains from illicit cigarettes and new products launches; 2) The FMCG business has reached the inflection 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; 3) The demerger of the hotel business will strengthen ITC's balance sheet and improve return ratios. In addition, the reasonable valuation provides a margin of safety.

Sector Outlook: Cautious

Company Outlook & Guidance: As the near-term demand environment remain challenging, we cut our FY25/FY26 PAT estimates by 6%/4% to factor in near-term challenges.

Current Valuation: 27x Dec'25 EPS (Earlier Valuation: 27x Jun'25 EPS).

Current TP: Rs 500/share (Earlier TP: Rs 540/share).

Recommendation With an upside potential of 11% from the CMP, we **maintain** our BUY rating on the stock.

Financial Performance: The company's Q3FY24 results were below estimates on the operating front. The revenue grew by 1% YoY to Rs 16,314 Cr owing to subdued performance in Cigarettes (flat volume growth) on account of high base and continued drag in Agri – down 2% YoY / paper board business – down 10%. FMCG revenue grew ~8% YoY owing despite subdued demand conditions led by NPD. Hotel Business maintained its stellar performance, up by 18% YoY led by retail, MICE and strong traction from the ICC World Cup. Gross margins stood at 58%, down 50bps owing to a sequential increase in key raw material prices – tobacco, wheat, maida and sugar. EBITDA declined 3% YoY while EBITDA margins stood at 36.9% (down by 177bps YoY), due to higher Opex. The reported PAT was Rs 5,572 Cr (up 11% YoY) on account of higher other income and lower taxation.

A) Cigarettes (~78% of EBIT) – ITC's Cigarettes revenue grew 3.6%YoY (flat volume growth) on account of high base, while EBIT grew 2% YoY, while EBIT margins declined 75bps YoY to 62.6% owing to higher RM (tobacco).

Outlook: We believe ITC is likely to see near-term pressure as the demand environment is likely to remain challenging as witnessed by most of the FMCG companies, however, its long-term growth outlook remains intact, further the stock is currently trading at 22x FY26E EPS and a 3-4% dividend yield provides a margin of safety compared to its peers as valuations of other larger players (HUL/ Nestle) stand elevated which makes ITC a better play on a long term basis.

Valuation & Recommendation: We have cut our FY25-26 PAT estimates by 6%/4% to account for near-term demand challenges, with an upside of 11% from CMP we maintain our BUY rating on the stock with revised TP of Rs 500/ share (vs. earlier TP of Rs 540/ share).

Key Financials (Standalone)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	16,314	-0.5	1.4	16,616	-1.8
EBITDA	6,024	-0.3	-3.2	6,106	-1.3
EBITDA Margin (%)	36.9	7 bps	-177 bps	36.7	18 bps
Net Profit	5,572	13.1	10.8	4,879	14.2
EPS (Rs)	4.5	13.1	10.8	3.9	14.2

Source: Company, Axis Research

(CMP as of 29th Jan'24)

CMP (Rs)	450
Upside /Downside (%)	11%
High/Low (Rs)	499/329
Market cap (Cr)	561,560
Avg. daily vol. (6m)Shrs.'000	10644
No. of shares (Cr)	1248

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	0.0	0.0	0.0
FII's	43.6	43.3	43.3
MFs / UTI	9.2	9.4	9.7
Banks / FI's	7.9	7.9	7.9
Others	39.3	39.3	39.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	65,009	71,675	79,437
EBITDA	24,606	27,452	30,880
Net Profit	20,117	22,457	25,263
EPS (Rs.)	16.2	18.1	20.3
PER (x)	27.8	24.9	22.1
EV/EBITDA (x)	21.9	19.5	17.2
P/BV (x)	7.9	7.4	6.7
ROE (%)	28.4	29.6	30.1

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-9%	-9%
EBITDA	-10%	-8%
PAT	-6%	-4%

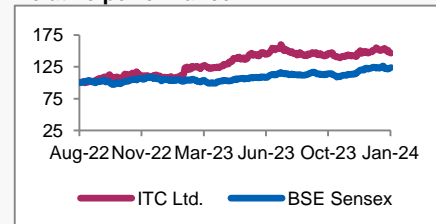
ESG disclosure Score**

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 8% YoY, led by growth in both traditional and emerging channels and distribution expansion. Its EBIT margins improved by 110bps YoY to 8.3%, mainly driven by premiumisation, supply chain optimizations, price actions, new initiatives, and effective cost management.
- **Hotels** – Maintained strong performance, revenue up by 18% YoY led by strong growth in ARR's, and occupancies across properties driven by retail, MICE segments & strong traction of ICC World Cup. Its EBIT grew 57% while margins improved by 470bps YoY to 36.2%, led by higher realisation, structural cost interventions & operating leverage. In Q3FY24, The division added 3 new properties - Fortune Park (Aligarh), Fortune Park(Tiruppur) and Fortune Park-East Delhi,(Vivek Vihar).
- **Paperboards** – Revenue declined 10% YoY, and EBIT declined 51% YoY owing to subdued domestic demand and increased competitive intensity from cheap Chinese players. Margins were largely impacted on the back of negative operating leverage and increased input cost.
- **Agri** – Agri business also de-grew 2% YoY, on account of trade restrictions on agri commodities. However, adjusting for wheat exports, the Agri business grew 14% YoY, driven by value-added products and leaf tobacco.
- **ITC Infotech** – Revenue stood at Rs 968 Cr (up 11% YoY)

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
Rev	79,127	86,860	71,675	79,437	-9%	-9%
EBITDA	30,475	33,452	27,452	30,880	-10%	-8%
PAT	23,919	26,304	22,457	25,263	-6%	-4%
EPS	19.2	21.2	18.1	20.3	-6%	-4%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q3FY23	Q2FY24	Axis Sec Est.	Q3FY24	YoY growth %	QoQ growth %	Axis Sec Est. Var (%)
Volume growth est. (% yoy)	13.0	5.0	3.0	0.0	-1300 bps	-500 bps	
Net sales	16,082	16,394	16,616	16,314	1.44	(0.49)	(1.8)
Other operating Income	143	156	129	169	17.94	8.14	31.0
Gross Profits	9,411	9,330	9,720	9,465	0.57	1.45	(2.6)
Gross Margin (%)	58.5	56.9	58.5	58.0	-50 bps	111 bps	-48 bps
Staff costs	877	909	921	950	8.31	4.47	3.2
Other operating expenses	2,454	2,535	2,822	2,660	8.37	4.92	(5.8)
EBITDA	6,223	6,042	6,106	6,024	(3.20)	(0.29)	(1.3)
EBITDA margin (%)	38.7	36.9	36.7	36.9	-177 bps	7 bps	18 bps
Other Income	872	896	915	1,135	30.24	26.77	24.0
Interest	10	11	11	12	21.61	17.79	16.6
Depreciation	407	413	417	417	2.34	0.85	(0.1)
PBT	6,678	6,514	6,593	6,731	0.79	3.33	2.1
Tax	1,647	1,587	1,714	1,153	(29.98)	(27.33)	(32.7)
Tax rate (%)	24.7	24.4	26.0	17.1	-753 bps	-723 bps	
Reported PAT	5,031	4,927	4,879	5,572	10.75	13.09	14.2
Reported EPS	4.1	4.0	3.9	4.5	10.75	13.09	14.2

Source: Company, Axis Securities

Segmental Performance

Segment Revenue	Q3FY23	Q2FY24	Q3FY24	YoY%	QoQ (%)
Cigarette	7,288	7,658	7,549	3.6%	-1.4%
Other FMCG	4,841	5,292	5,209	7.6%	-1.6%
Hotel	712	649	842	18.2%	29.7%
AgriBusiness	3,124	3,931	3,055	-2.2%	-22.3%
Paper Board	2,306	2,070	2,081	-9.7%	0.5%
Total	18,271	19,600	18,736	2.5%	-4.4%

% Revenue Contribution	Q3FY23	Q2FY24	Q3FY24	YoY%	QoQ (%)
Cigarette	39.9%	39.1%	40.3%	40bps	122bps
Other FMCG	26.5%	27.0%	27.8%	131bps	80bps
Hotel	3.9%	3.3%	4.5%	60bps	118bps
AgriBusiness	17.1%	20.1%	16.3%	-79bps	-375bps
Paper Board	12.6%	10.6%	11.1%	-151bps	55bps

Segment EBIT	Q3FY23	Q2FY24	Q3FY24	YoY%	QoQ (%)
Cigarette	4,620	4,782	4,728	2.3%	-1.1%
Other FMCG	348	439	432	24.1%	-1.5%
Hotel	146	126	230	57.1%	82.5%
AgriBusiness	391	357	339	-13.3%	-4.9%
Paper Board	606	316	296	-51.2%	-6.3%

Segment EBIT Margin %	Q3FY23	Q2FY24	Q3FY24	YoY%	QoQ (%)
Cigarette	63.4%	62.4%	62.6%	-75bps	19bps
Other FMCG	7.2%	8.3%	8.3%	110bps	0bps
Hotel	20.5%	19.4%	27.3%	676bps	790bps
AgriBusiness	12.5%	9.1%	11.1%	-143bps	203bps
Paper Board	26.3%	15.3%	14.2%	-1207bps	-104bps

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	65,273	65,009	71,675	79,437
Growth, %	17	(0)	10	11
Other operating income	770	847	932	1,025
Total income	66,043	65,857	72,608	80,462
Raw material expenses	(28,880)	(27,292)	(29,748)	(32,574)
Employee expenses	(3,569)	(3,712)	(4,083)	(4,492)
Other Operating expenses	(9,649)	(10,247)	(11,324)	(12,517)
EBITDA (Core)	23,944	24,606	27,452	30,880
Growth, %	26	3	12	12
Margin, %	37	38	38	39
Depreciation	(1,663)	(1,642)	(1,762)	(1,884)
EBIT	22,282	22,964	25,690	28,996
Growth, %	29	3	12	13
Margin, %	34	35	36	37
Interest paid	(42)	(45)	(46)	(46)
Other Income	2,438	3,656	4,022	4,424
Non-recurring Items	73	-	-	-
Pre-tax profit	24,750	26,575	29,667	33,374
Tax provided	(5,997)	(6,458)	(7,210)	(8,110)
Profit after tax	18,753	20,117	22,457	25,263
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,243	1,243	1,243	1,243
Wtd avg shares (Cr)	1,243	1,243	1,243	1,243

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Mar,	FY23	FY24E	FY25E	FY26E
Cash & bank	3,831	4,205	7,357	13,263
Marketable securities at cost	16,357	16,357	16,357	16,357
Debtors	2,321	4,453	4,909	5,441
Inventory	10,594	10,551	11,633	12,893
Loans & advances	6	6	6	6
Other current assets	2,094	2,094	2,094	2,094
Total current assets	35,203	37,666	42,357	50,054
Investments	16,364	16,364	16,364	16,364
Gross fixed assets	34,261	36,761	39,361	41,961
Less: Depreciation	(10,087)	(11,729)	(13,490)	(15,374)
Add: Capital WIP	1,697	1,697	1,697	1,697
Net fixed assets	25,871	26,729	27,567	28,283
Non-current assets	4,824	4,824	4,824	4,824
Total assets	82,262	85,582	91,111	99,524
Current liabilities	11,639	11,622	12,073	12,597
Provisions	978	977	998	1,022
Total current liabilities	12,617	12,599	13,070	13,619
Non-current liabilities	2,050	2,050	2,050	2,050
Total liabilities	14,668	14,649	15,121	15,670
Paid-up capital	1,243	1,243	1,243	1,243
Reserves & surplus	66,351	69,690	74,748	82,612
Shareholders' equity	67,594	70,933	75,991	83,855
Total equity & liabilities	82,262	85,582	91,111	99,524

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	24,750	26,575	29,667	33,374
Depreciation	1,663	1,642	1,762	1,884
Chg in working capital	(796)	(2,107)	(1,067)	(1,242)
Total tax paid	(5,818)	(6,458)	(7,210)	(8,110)
Other operating activities	-	-	-	-
Cash flow from operating activities	19,799	19,652	23,152	25,905
Capital expenditure	(1,847)	(2,500)	(2,600)	(2,600)
Chg in investments	(706)	-	-	-
Chg in marketable securities	(4,732)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	(7,285)	(2,500)	(2,600)	(2,600)
Free cash flow	12,514	17,152	20,552	23,305
Equity raised/(repaid)	2,567	(0)	0	-
Debt raised/(repaid)	(1)	-	-	-
Dividend (incl. tax)	(19,255)	(16,778)	(17,399)	(17,399)
Cash flow from financing activities	(16,689)	(16,778)	(17,399)	(17,399)
Net chg in cash	(4,176)	374	3,153	5,906
Opening cash balance	3,878	3,831	4,205	7,357
Closing cash balance	3,831	4,205	7,357	13,263

Source: Company, Axis Securities

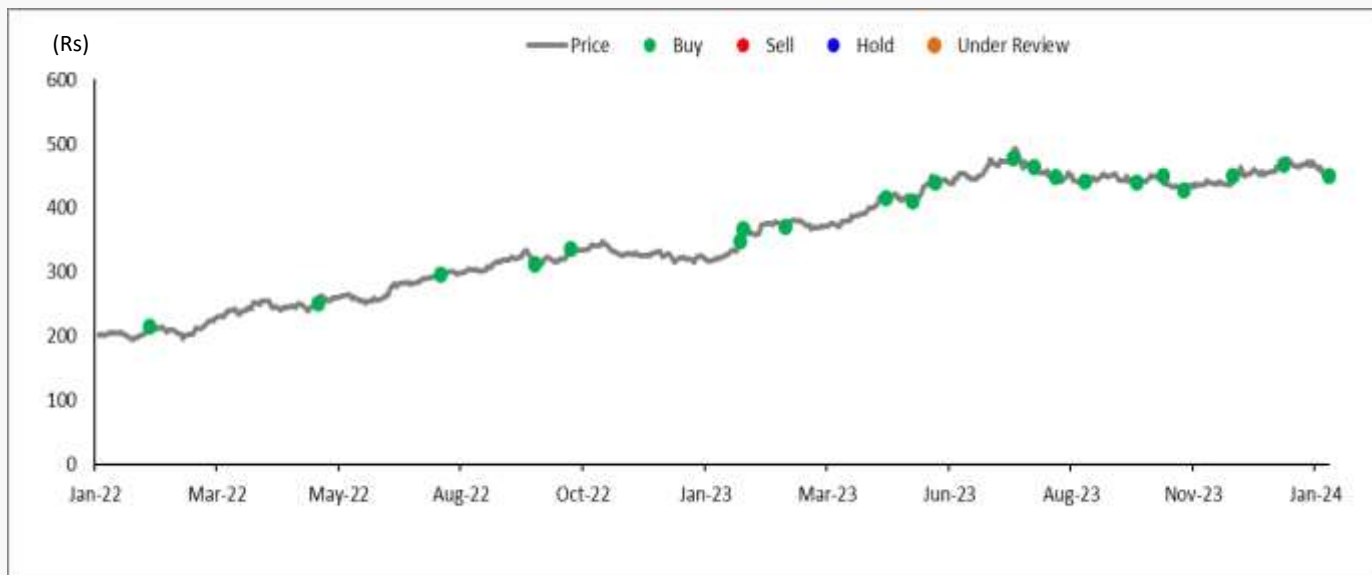
Ratio Analysis

(%)

	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	15.0	16.2	18.1	20.3
Growth, %	23.0	7.7	11.6	12.5
Book NAV/share (INR)	54.4	57.1	61.1	67.5
FDEPS (INR)	15.0	16.2	18.1	20.3
CEPS (INR)	16.3	17.5	19.5	21.8
CFPS (INR)	15.6	12.9	15.4	17.3
DPS (INR)	15.5	13.5	14.0	14.0
Return ratios				
Return on assets (%)	23.9	24.0	25.5	26.6
Return on equity (%)	27.6	28.4	29.6	30.1
Return on capital employed (%)	28.2	28.2	29.7	30.8
Turnover ratios				
Asset turnover (x)	2.2	2.1	2.2	2.3
Sales/Total assets (x)	0.8	0.8	0.8	0.8
Sales/Net FA (x)	2.5	2.5	2.6	2.8
Working capital/Sales (x)	0.0	0.1	0.1	0.1
Receivable days	13.0	25.0	25.0	25.0
Inventory days	59.2	59.2	59.2	59.2
Payable days	37.7	38.3	38.6	39.0
Working capital days	14.5	26.4	29.5	32.4
Liquidity ratios				
Current ratio (x)	2.8	3.0	3.3	3.7
Quick ratio (x)	2.0	2.2	2.4	2.8
Interest cover (x)	532.9	508.6	563.3	629.5
Net debt/Equity (%)	(5.7)	(5.9)	(9.7)	(15.8)
Valuation				
PER (x)	29.9	27.8	24.9	22.1
PEG (x) - y-o-y growth	1.3	3.6	2.1	1.8
Price/Book (x)	8.3	7.9	7.4	6.7
EV/Net sales (x)	8.3	8.3	7.5	6.7
EV/EBITDA (x)	22.5	21.9	19.5	17.2
EV/EBIT (x)	24.2	23.5	20.8	18.3

Source: Company, Axis Securities

ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
04-Feb-22	BUY	280	Result Update
19-May-22	BUY	295	Result Update
02-Aug-22	BUY	340	Result Update
29-Sep-22	BUY	380	AAA
21-Oct-22	BUY	385	Result Update
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

Source: Axis Securities

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