

## Consumer Staples | Q3FY24 Result Update

## Disappointing volume performance; Reduce

- ITC's Q3FY24 revenue and APAT came in line. Our analysis suggest that the cigarette business reported flat volume growth– below our estimate.
- FMCG business reported 7.6% revenue growth with 110bps improvement in EBIT margin. Revenue performance was better compared to the industry.
- Cigarette business is battling high base and is expected to post muted performance hence forth. The business reported 9% sales CAGR and 5.1% volume CAGR over last 4-yrs. We expect volume and MS gain in the business in the near term.
- We have downward revised our FY24/25/26E EPS estimates by 2.7/2.1/1.3% at Rs 16.3/18.0/19.8 to factor in Q3 performance and increased pressure in cigarette and paper business. We have arrived at a TP of Rs 464 (SOTP valuation). Considering recent run-up in stock price. We downgrade to Reduce.

## Results broadly in line with estimate

Net sales increased 1.8% YoY to Rs 180.2bn – came in line with our estimate. Our analysis suggest that the volume growth was flattish during the quarter. EBITDA de-grew by 3.0% YoY to Rs 65.0bn –came 7.1% below our estimate at Rs 70.0bn. EBITDA margins contracted by 180bps to 36.1% as a result of 10/60/100bps increase in RM/employee cost/other expenses respectively. APAT increased by 6.6% YoY to Rs 54.1bn – came in line our estimate at Rs 53.9bn. Though overall results were broadly in line with our estimate, challenges to increase cigarette volumes and profitability in the business would remain a key challenge. Decline in paper business was a negative surprise during the quarter.

## 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 year, the company has increased select product prices to mitigate RM inflation. However, due to RM inflation, EBIT margins contracted by 30bps. 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 at low to mid-single digit, going ahead.

## Q3FY24 Result (Rs Mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	180,194	177,045	1.8	177,745	1.4
Total Expense	115,156	109,998	4.7	113,202	1.7
EBITDA	65,038	67,047	(3.0)	64,542	0.8
Depreciation	4,595	4,471	2.8	4,530	1.4
EBIT	60,444	62,576	(3.4)	60,012	0.7
Other Income	6,568	5,954	10.3	6,649	(1.2)
Interest	136	92	47.7	99	37.8
EBT	66,876	68,438	(2.3)	66,562	0.5
Tax	12,816	17,737	(27.7)	17,003	(24.6)
RPAT	54,120	50,803	6.5	49,645	9.0
APAT	54,120	50,803	6.5	49,645	9.0
			(bps)		(bps)
Gross Margin (%)	60.9	61.1	(13)	60.2	69
EBITDA Margin (%)	36.1	37.9	(178)	36.3	(22)
NPM (%)	30.0	28.7	134	27.9	210
Tax Rate (%)	19.2	25.9	(675)	25.5	(638)
EBIT Margin (%)	33.5	35.3	(180)	33.8	(22)

CMP	Rs 450
Target / Upside	Rs 464 / 3%
NIFTY	21,738

## Scrip Details

Equity / FV	Rs 12,428mn / Rs 1
Market Cap	Rs 5,590bn
	USD 67.2bn
52-week High/Low	Rs 500/ 329
Avg. Volume (no)	10,477,700
Bloom Code	ITC IN

Price Performance	1M	3M	12M
Absolute (%)	(3)	4	30
Rel to NIFTY (%)	(2)	(8)	10

## Shareholding Pattern

	Jun'23	Sep'23	Dec'23
Promoters	0.0	0.0	0.0
MF/Banks/FIs	42.0	42.0	42.0
FIs	43.6	43.3	43.3
Public / Others	14.4	14.7	14.7

## Valuation (x)

	FY24E	FY25E	FY26E
P/E	27.6	25.0	22.7
EV/EBITDA	20.1	18.0	16.1
ROE (%)	28.9	29.6	29.6
RoACE (%)	28.3	28.9	28.9

## Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	717.9	783.7	852.8
EBITDA	266.2	293.7	323.1
PAT	202.2	223.5	246.6
EPS (Rs.)	16.3	18.0	19.8

**VP - Research: Sachin Bobade**  
Tel: +91 22 40969731  
E-mail: sachinb@dolatcapital.com

**Associate: Jyoti Amonkar**  
Tel: +9122 61764822  
E-mail: jyotia@dolatcapital.com

**Associate: Nistha Pala**  
Tel: +9122 40969753  
E-mail: nisthap@dolatcapital.com

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

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	180,194	186,351	(3.3)	Lower than estimated cigarette volume and lower paper division sales.
EBITDA	65,038	70,012	(7.1)	Cascading effect of lower revenues and lower than estimated EBITDA margin
EBITDA margin %	36.1	37.6	(150bps)	
APAT	54,060	53,900	0.3	Lower tax rate resulted in line APAT

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	717,918	729,776	(1.6)	783,741	786,095	(0.3)	852,771	850,763	0.2
EBIDTA	266,248	273,772	(2.7)	293,668	299,998	(2.1)	323,124	327,447	(1.3)
EBIDTA margin (%)	37.1	37.5	(40bps)	37.5	38.2	(70bps)	37.9	38.5	(60bps)
PAT	202,204	207,772	(2.7)	223,541	228,225	(2.1)	246,569	249,768	(1.3)
EPS (Rs)	16.3	16.7	(2.7)	18.0	18.4	(2.1)	19.8	20.1	(1.3)

Source: Company DART

We have downward revised our FY24/25/26E revenue estimates to factor in lower than estimated growth in Q2. Further, we have lowered our EBITDA margin estimates to factor in increased lower margins during Q3. In line with the change in EBITDA, we have revised our APAT estimates.

**Exhibit 3: 9MFY24 Performance**

Particulars (Rs.mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	180,194	177,045	1.8	177,745	1.4	529,583	533,020	(0.6)
Total Expenditure	115,156	109,998	4.7	113,202	1.7	333,302	342,610	(2.7)
RM Cost	70,419	68,955	2.1	70,687	(0.4)	206,602	222,352	(7.1)
Employee Exp	15,864	14,467	9.7	15,079	5.2	45,764	42,934	6.6
Other Exp	28,873	26,576	8.6	27,437	5.2	80,936	77,324	4.7
PBIDT (Excl OI)	65,038	67,047	(3.0)	64,542	0.8	196,281	190,409	3.1
Other Income	6,568	5,954	10.3	6,649	(1.2)	20,440	13,709	49.1
Interest	136	92	47.7	99	37.8	334	311	7.5
Depreciation	4,595	4,471	2.8	4,530	1.4	13,550	13,476	0.5
PBT	66,876	68,438	(2.3)	66,562	0.5	202,838	190,331	6.6
Tax	12,816	17,737	(27.7)	17,003	(24.6)	47,418	48,305	(1.8)
APAT	54,060	50,701	6.6	49,559	9.1	155,421	142,027	9.4
Minority Interest	60.1	101.6	(40.8)	86.2	(30.3)	241	315	(23.4)
RPAT	54,120	50,803	6.5	49,645	9.0	155,662	142,342	9.4
EPS	4.3	4.1	6.6	4.0	9.1	12	11	9.4
			<b>bps</b>		<b>bps</b>			<b>bps</b>
Gross Profit (%)	60.9	61.1	(10)	60.2	70	61.0	58.3	270
Employee Exp (%)	8.8	8.2	60	8.5	30	8.6	8.1	60
Other Exp (%)	16.0	15.0	100	15.4	60	15.3	14.5	80
EBITDA (%)	36.1	37.9	(180)	36.3	(20)	37.1	35.7	130
PAT (%) Adj	30.0	28.6	140	27.9	210	29.3	26.6	270

Source: Company, DART

**Exhibit 4: Segmental Performance**

Particulars (Rs Mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Remarks
<b>Cigarettes</b>						<ul style="list-style-type: none"> <li>Cigarettes business posted revenue growth of 2.6% YoY with flat volume growth in Q3.</li> <li>Reinforced market standing through innovation, premiumisation, market intervention and strong execution.</li> </ul>
Revenue	82,952	80,857	2.6	83,282	(0.4)	
EBIT	49,666	48,623	2.1	50,029	(0.7)	
EBIT Margin (%)	59.9	60.1	(30bps)	60.1	(20bps)	
<b>FMCG Others</b>						<ul style="list-style-type: none"> <li>Resilient growth in FMCG business was driven by Staples, Dairy, Beverages, Personal wash etc.</li> <li>Margin expanded 110bps led by focus on cost management actions, premiumisation, judicious pricing actions, and strategic cost management.</li> </ul>
Revenue	52,183	48,490	7.6	53,033	(1.6)	
EBIT	4,338	3,519	23.3	4,423	(1.9)	
EBIT Margin (%)	8.3	7.3	110bps	8.3	0bps	
<b>Hotels</b>						<ul style="list-style-type: none"> <li>ARR and occupancy witnessed strong growth across properties led by marquee events like ICC Cricket World Cup.</li> <li>Margin expansion driven by higher RevPAR, operating leverage and cost management initiatives.</li> </ul>
Revenue	8,725	7,393	18.0	6,750	29.3	
EBIT	2,335	1,493	56.4	1,330	75.6	
EBIT Margin (%)	26.8	20.2	660bps	19.7	710bps	
<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 14.2%).</li> <li>Focus remains on rapidly scaling up value-added product portfolio.</li> </ul>
Revenue	32,732	33,052	(1.0)	39,878	(17.9)	
EBIT	3,807	4,366	(12.8)	3,588	6.1	
EBIT Margin (%)	11.6	13.2	(160bps)	9.0	260bps	
<b>Paper &amp; Packaging</b>						<ul style="list-style-type: none"> <li>Revenue growth was impacted due to low priced Chinese supplies in global markets, muted domestic demand, surge in wood cost and high base effect.</li> <li>EBIT margins were impacted due to sharp drop in realizations and due to increased demand from competing industries.</li> </ul>
Revenue	20,809	23,055	(9.7)	20,699	0.5	
EBIT	2,952	6,062	(51.3)	3,148	(6.2)	
EBIT Margin (%)	14.2	26.3	(1,210bps)	15.2	(100bps)	
<b>Total</b>						
Revenue	197,400	192,847	2.4	203,641	(3.1)	
EBIT	63,097	64,063	(1.5)	62,518	0.9	
EBIT Margin (%)	32.0	33.2	(130bps)	30.7	130bps	

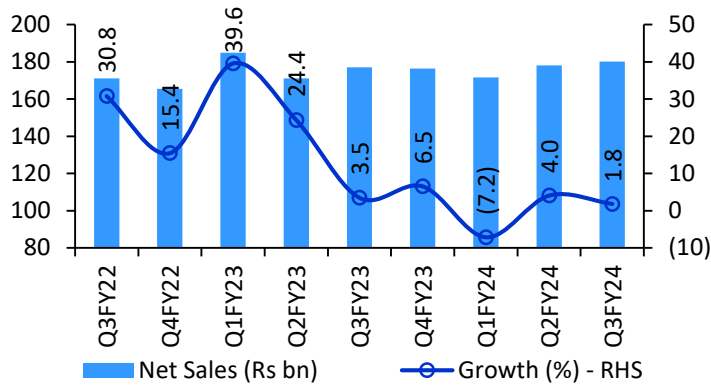
Source: Company, DART

### Exhibit 5: SOTP valuation

FY25E	Sales (Rs mn)	EBITDA	Basis	Multiple (x)	Total EV	Rs/share	Comments
Cigarettes	302,632	216,260	EV/EBITDA	12.0	2,595,120	209	In line with global and domestic peers
Paper	126,631	40,403	EV/EBITDA	6.0	242,417	20	Multiple in line with peers
Agri	110,816	26,094	EV/EBITDA	7.0	182,660	15	In line with domestic peers
New FMCG	260,218	33,224	EV/Sales	7.0	1,821,527	147	In line with most FMCG companies
Hotels	53,467	7,143	EV/Sales	7.0	374,268	30	In line with peers
<b>Total</b>	<b>853,764</b>	<b>323,124</b>			<b>5,215,992</b>	<b>420</b>	
<b>Gross Value</b>					5,215,992		
<b>Net Cash</b>					547,942		
<b>Net Value (Rs mn)</b>					5,763,934		
<b>No of Shares</b>					12,428		
<b>Per share (Rs)</b>					<b>464</b>		

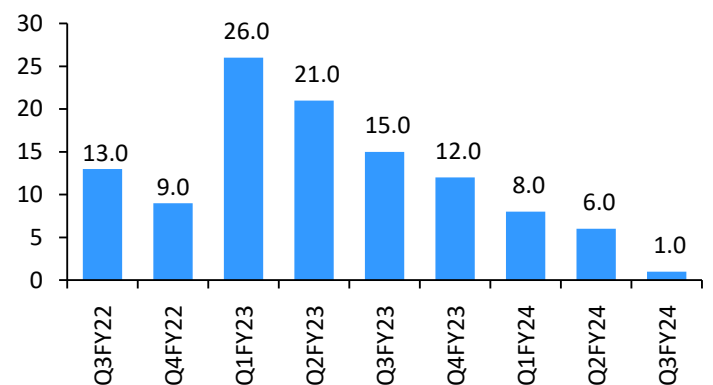
Source: Company, DART

### Exhibit 6: Trend in Net Sales & YoY Growth (%)



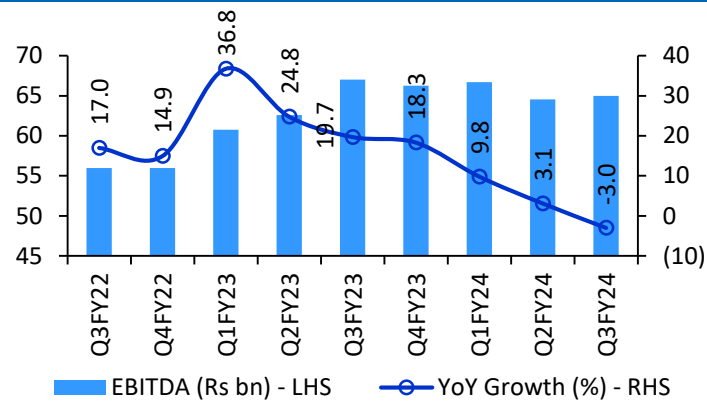
Source: Company, DART

### Exhibit 7: Trend in Cigarette Volume Growth (%)



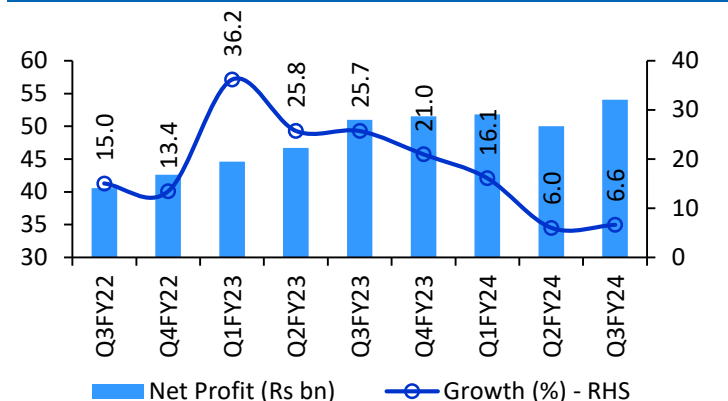
Source: Company, DART

### Exhibit 8: Trend in EBITDA & YoY EBITDA growth (%)



Source: Company, DART

### Exhibit 9: 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>660,433</b>	<b>717,918</b>	<b>783,741</b>	<b>852,771</b>
<b>Total Expense</b>	<b>420,988</b>	<b>451,671</b>	<b>490,073</b>	<b>529,647</b>
COGS	288,802	280,059	304,077	335,673
Employees Cost	35,695	49,683	55,662	60,595
Other expenses	96,492	121,929	130,333	133,380
<b>EBIDTA</b>	<b>239,445</b>	<b>266,248</b>	<b>293,668</b>	<b>323,124</b>
Depreciation	16,627	19,483	20,543	21,603
<b>EBIT</b>	<b>222,817</b>	<b>246,765</b>	<b>273,125</b>	<b>301,521</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>247,504</b>	<b>273,248</b>	<b>302,082</b>	<b>333,201</b>
Tax	59,971	71,045	78,541	86,632
RPAT	187,533	202,203	223,541	246,569
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>186,804</b>	<b>202,203</b>	<b>223,541</b>	<b>246,569</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	663,510	708,644	775,116	864,616
<b>Net Worth</b>	<b>675,938</b>	<b>721,072</b>	<b>787,544</b>	<b>877,044</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>692,195</b>	<b>742,318</b>	<b>808,790</b>	<b>898,289</b>

### Applications of Funds

Net Block	<b>241,892</b>	<b>242,409</b>	<b>241,866</b>	<b>240,263</b>
CWIP	16,815	15,133	13,620	12,258
Investments	163,636	163,636	163,636	163,636
<b>Current Assets, Loans &amp; Advances</b>	<b>400,275</b>	<b>470,772</b>	<b>551,263</b>	<b>659,881</b>
Inventories	105,939	143,306	154,252	169,710
Receivables	23,213	25,368	27,705	30,160
Cash and Bank Balances	38,313	67,211	132,279	220,781
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>130,423</b>	<b>149,632</b>	<b>161,596</b>	<b>177,749</b>
Payables	43,513	53,495	56,171	61,908
Other Current Liabilities	86,910	96,137	105,425	115,840
<i>sub total</i>				
Net Current Assets	269,852	321,140	389,668	482,133
<b>Total Assets</b>	<b>692,195</b>	<b>742,318</b>	<b>808,790</b>	<b>898,289</b>

E – Estimates

### Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	56.3	61.0	61.2	60.6
EBIDTA Margin	36.3	37.1	37.5	37.9
EBIT Margin	33.7	34.4	34.8	35.4
Tax rate	24.2	26.0	26.0	26.0
Net Profit Margin	28.4	28.2	28.5	28.9
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	43.7	39.0	38.8	39.4
Employee	5.4	6.9	7.1	7.1
Other	14.6	17.0	16.6	15.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	532.9	562.1	592.5	623.0
Inventory days	59	73	72	73
Debtors days	13	13	13	13
Average Cost of Debt	851.5	967.0	1015.3	1066.1
Payable days	24	27	26	26
Working Capital days	149	163	181	206
FA T/O	2.7	3.0	3.2	3.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	15.0	16.3	18.0	19.8
CEPS (Rs)	16.4	17.8	19.6	21.6
DPS (Rs)	12.2	12.6	12.6	12.6
Dividend Payout (%)	81.1	77.7	70.3	63.7
BVPS (Rs)	54.4	58.0	63.4	70.6
RoANW (%)	29.1	28.9	29.6	29.6
RoACE (%)	28.3	28.3	28.9	28.9
RoAIC (%)	35.8	37.1	40.4	44.5
<b>(E) Valuation Ratios</b>				
CMP (Rs)	450	450	450	450
P/E	29.9	27.6	25.0	22.7
Mcap (Rs Mn)	5,590,114	5,590,114	5,590,114	5,590,114
MCap/ Sales	8.5	7.8	7.1	6.6
EV	5,388,277	5,359,378	5,294,310	5,205,808
EV/Sales	8.2	7.5	6.8	6.1
EV/EBITDA	22.5	20.1	18.0	16.1
P/BV	8.3	7.8	7.1	6.4
Dividend Yield (%)	2.7	2.8	2.8	2.8
<b>(F) Growth Rate (%)</b>				
Revenue	17.2	8.7	9.2	8.8
EBITDA	26.5	11.2	10.3	10.0
EBIT	28.9	10.7	10.7	10.4
PBT	24.8	10.4	10.6	10.3
APAT	24.1	8.2	10.6	10.3
EPS	24.1	8.2	10.6	10.3

E – Estimates



## Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
<b>Profit before tax</b>	<b>246,775</b>	<b>273,248</b>	<b>302,082</b>	<b>333,201</b>
Depreciation & w.o.	16,627	19,483	20,543	21,603
Net Interest Exp	418	439	461	484
Direct taxes paid	(58,006)	(71,045)	(78,541)	(86,632)
Change in Working Capital	(4,441)	(22,389)	(3,460)	(3,963)
Non Cash	(22,257)	0	0	0
<b>(A) CF from Operating Activities</b>	<b>179,117</b>	<b>199,736</b>	<b>241,085</b>	<b>264,692</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(18,095)	(18,319)	(18,487)	(18,638)
<b>Free Cash Flow</b>	<b>161,022</b>	<b>181,418</b>	<b>222,598</b>	<b>246,054</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)	(151,504)	(157,069)	(157,069)	(157,069)
Other	(314)	4,989	0	0
<b>(C) CF from Financing</b>	<b>(127,990)</b>	<b>(152,519)</b>	<b>(157,530)</b>	<b>(157,553)</b>
Net Change in Cash	(467)	28,898	65,068	88,501
<b>Opening Cash balances</b>	<b>38,779</b>	<b>38,313</b>	<b>67,211</b>	<b>132,279</b>
<b>Closing Cash balances</b>	<b>38,313</b>	<b>67,211</b>	<b>132,279</b>	<b>220,781</b>

E – Estimates

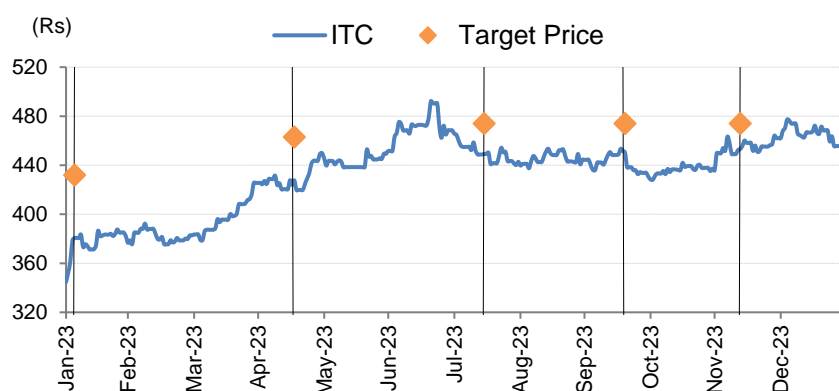
## Notes

## 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.)
Feb-23	Accumulate	432	381
May-23	Accumulate	463	428
Aug-23	Accumulate	474	449
Oct-23	Accumulate	474	450
Dec-23	Accumulate	474	453

\*Price as on recommendation date

## DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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## CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013



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Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)