



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## ITC

29 January 2024

## Favorable below-EBITDA items offset muted operational performance impacted by high base

## RESULT UPDATE

**Sector: FMCG** **Rating: BUY**  
**CMP: Rs 450** **Target Price: Rs 519**

## Stock Info

Sensex/Nifty	71,941/ 21,737
Bloomberg	ITC IN
Equity shares (mn)	12439
52-wk High/Low	Rs 500/ 329
Face value	Rs 1
M-Cap	Rs 5615bn/US\$ 69bn
3-m Avg volume	US\$ 59mn

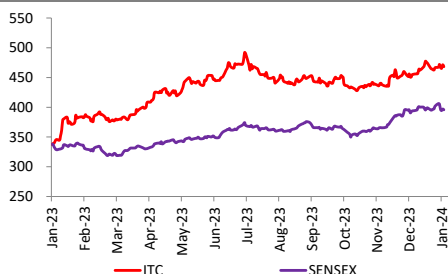
## Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	724,829	794,846	882,879
PAT	212,922	231,335	257,967
EPS (Rs)	17.1	18.6	20.8
PE (x)	26.3	24.2	21.7
EV/EBITDA (x)	20.9	18.9	16.7
P/BV (x)	7.8	7.6	7.3
EV/Sales	7.7	7.0	6.3
RoE (%)	30.3	31.9	34.4
RoCE (%)	40.2	42.4	45.8
NWC (days)	64	61	61
Net gearing (x)	0.0	0.0	0.0

## Shareholding pattern (%)

	Dec 23	Sep 23	Jun 23
Promoter	-	-	-
-Pledged	-	-	-
FII	43.3	43.3	43.6
DII	41.9	41.9	41.9
Others	14.7	14.7	14.5

## Stock Performance (1-year)



Revenues came in below expectations at 1.6% YoY with lower-than-expected cigarette volumes, Paperboard and agribusiness revenue. EBITDA margins were lower than our expectations at 36.5%, down 181bps YoY due to inferior segment mix and weak profitability in paperboard and agribusiness.

**Key highlights:** 1) Cigarette volume/revenue/EBIT growth of -1%/3.6%/2.3% due to consolidation on a high base (15% volume growth in 3QFY23) after a period of sustained growth momentum, 2) FMCG grew 7.6% to Rs 52bn (2-yr CAGR of 12.8%) led by growth in staples, dairy, beverages, personal wash and homecare categories, with continued margin expansion of 100bps to 11%, 3) Hotel business continued a strong rebound despite high base, grew 18.2% YoY and EBIT grew 57.1% YoY (margin up 676bps YoY) driven by higher RevPAR and strategic cost management initiatives, 4) Agri business declined 2.2% and EBIT declined 13.3%, 5) paper segment revenue declined 9.7% due to low priced Chinese supplies, subdued demand and fall in pulp prices, 6) ITC Infotech posted revenue growth of 11% with EBITDA margins of 19.9% and 7) sharp rise in other income (up 30% YoY) and lower tax expenses (down 28% YoY) led to a significant beat on PAT (up 11% YoY) despite a miss on EBITDA (down 3% YoY).

We expect the volume trajectory on cigarettes to gradually recover with stable margins, while FMCG traction should continue given the distribution ramp-up alongside a continued improvement in margins. Hotels and agribusiness should continue strong momentum while paper business seems to be bottoming out. Strong cash generation and a solid dividend yield should continue to provide downside support. The hotels business demerger is a positive and we expect an accelerated re-rating if it is followed with similar actions in FMCG/IT businesses as well. Introducing our FY26 estimates, we build in 8%/9%/10% revenue/EBITDA/PAT CAGR over FY23-26E. We maintain our BUY rating with a revised target price of Rs 519 (Rs 515 earlier), based on 25x FY26E earnings, in-line with LPA multiple, which seems fair given the ongoing consolidation in growth trajectory and limited margin levers offset by relatively inexpensive valuation and triggers like further restructuring and improving capital efficiency.

**Cigarette growth muted:** Cigarette revenue was up 3.6% (up 2.1% net of excise and NCCD) with volumes declining around 1% (our estimate), worse than our expectations of 2% growth, on a base of 15% growth in 3QFY23. Company witnessed consolidation on a high base after a period of sustained growth momentum. Cigarette EBIT grew 2.3% YoY, indicating some deterioration in mix and also impacted by a high base. Differentiated variants and premium segments continue to perform well. Traction witnessed in new innovative launches like Classic Connect, Gold Flake Indie Mint, Gold Flake SLK, American club clove mint. Sharp cost escalation (Leaf Tobacco & certain other inputs) and increase in taxes was largely mitigated through improved mix, strategic cost management and calibrated pricing.

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Investors are advised to refer disclosures made at the end of the research report.

**FMCG business tracking well on both growth and margins:** FMCG revenue grew 7.6% YoY (solid 2-yr CAGR of 12.8%). EBITDA margins continue to expand reaching new highs of 11% with EBIT margin expanding to 8.3% due to a combination of commodity price deflation in agri commodities, premiumization, pricing actions, supply chain optimisation, and strategic cost management. Atta, Dairy, Beverages, Spices, Personal Wash, Agarbatti and Stationery Products delivered growth amidst relatively subdued consumer demand environment. Other notable trends were a rapid scale up in alternate channels, increased competitive intensity from local/regional players and step up in marketing spends.

**Hotel business grew led by strong growth in ARR:** Hotel business revenue grew 18.2% YoY despite high base led by strong growth in ARRs across properties. Occupancy was driven by retail, MICE segments and marquee events like the ICC Cricket World Cup. Hotel EBITDA margin expanded by 470 bps YoY to 36.2%; margin expansion driven by higher RevPAR, curated packages, strong F&B offerings and strategic cost management initiatives. EBIT margin stood at 27.3%, expanded 676bps YoY.

**Paperboards, Paper & Packaging performance was subdued:** Paperboard revenue declined 9.7% YoY due to subdued demand conditions, low priced Chinese supplies in global markets and steep decline in global pulp prices on a high base. EBIT margin contracted 1207bps YoY to 14.2%. Focus on accelerating New Business Development in domestic and export markets offering innovative and customised solutions, with special focus on consumer electronics, QSR and personal care products. Sustainable products portfolio continues to witness strong growth. The premium moulded fibre products manufacturing facility being set up in Badiyakhedi, Madhya Pradesh is expected to be commissioned by the end of the financial year.

**Agri-business:** Agri business revenue declined 2.2% YoY, while EBIT margin contracted 143bps YoY to 11.1% (seen sequential improvement of 203bps). Leaf tobacco exports and value-added agri products witnessed strong growth, however restrictions on exports of wheat and rice by the Government impacted business. The business continues to provide strategic sourcing support to the branded packaged foods business leveraging the e-Choupal network. The company remained focused on its strategy of rapidly scaling up its VAP portfolio to accelerate growth and enhance value capture in segments like spices, coffee, marine products and processed fruits.

**Risks:** 1) Sharp increase in cigarette taxes, 2) regulatory norms such as implementation of plain packaging or other stricter norms to curb tobacco consumption, and 3) slowdown in consumer spending, impacting growth rate in the FMCG business.

## Exhibit 1: Quarterly performance

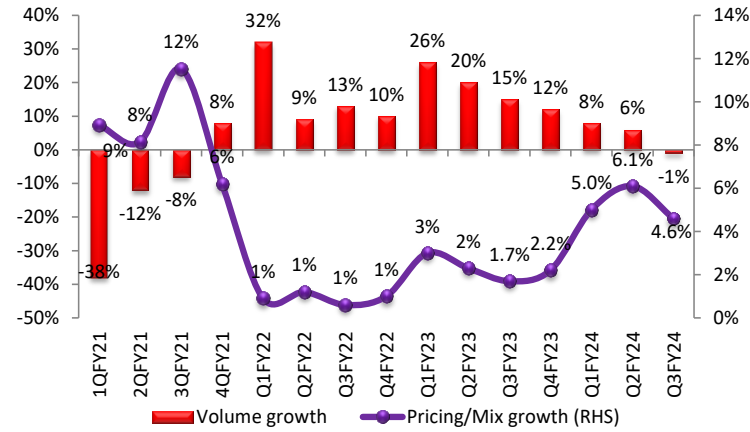
YE March (Rs mn)	Q3FY24	Q3FY23	Q2FY24	y-y (%)	q-q (%)
Net sales	174,828	171,222	175,488		
Excise duty	11,686	10,398	11,550		
Other operating income	1,691	1,433	1,563		
<b>Net Revenues</b>	<b>164,833</b>	<b>162,257</b>	<b>165,501</b>	<b>1.6</b>	<b>(0.4)</b>
Cost of materials	52,561	52,849	57,792	(0.5)	(9.1)
(% of sales)	30.1	30.9	32.9		
Purchase of stock in trade	15,933	13,864	12,851	14.9	24.0
(% of sales)	9.7	8.5	7.8		
<b>Gross profit</b>	<b>96,339</b>	<b>95,545</b>	<b>94,858</b>	<b>0.8</b>	<b>1.6</b>
<b>Gross margin (%)</b>	<b>58.4</b>	<b>58.9</b>	<b>57.3</b>		
Employee cost	9,498	8,770	9,092	8.3	4.5
(% of sales)	5.8	5.4	5.5		
Others	26,598	24,543	25,350	8.4	4.9
(% of sales)	16.1	15.1	15.3		
<b>EBITDA</b>	<b>60,243</b>	<b>62,232</b>	<b>60,416</b>	<b>(3.2)</b>	<b>(0.3)</b>
<b>EBITDA margin (%)</b>	<b>36.5</b>	<b>38.4</b>	<b>36.5</b>	<b>(1.81)</b>	
Other income	11,353	8,717	8,956	30.2	26.8
<b>PBIDT</b>	<b>71,596</b>	<b>70,949</b>	<b>69,372</b>	<b>0.9</b>	<b>3.2</b>
Depreciation	4,168	4,072	4,132	2.3	0.9
Interest	124	102	105	21.6	17.8
<b>PBT</b>	<b>67,305</b>	<b>66,775</b>	<b>65,135</b>	<b>0.8</b>	<b>3.3</b>
Tax	11,529	16,010	15,865	(28.0)	(27.3)
ETR (%)	17.1	24.0	24.4		
Deferred tax	-	455	-	(100.0)	#DIV/0!
P/L of associate and JV	-	-	-		
<b>Adjusted PAT</b>	<b>55,776</b>	<b>50,310</b>	<b>49,270</b>	<b>10.9</b>	<b>13.2</b>
PATAMI margin	33.8	31.0	29.8		
Exceptional item	55		-		
<b>Reported PAT</b>	<b>55,721</b>	<b>50,310</b>	<b>49,270</b>	<b>10.8</b>	<b>13.1</b>
No. of shares (mn)	12,428.0	12,323.3	12,428.0		
<b>Adj EPS (Rs)</b>	<b>4.5</b>	<b>4.1</b>	<b>4.0</b>		

Source: Company, Systematix Institutional Research

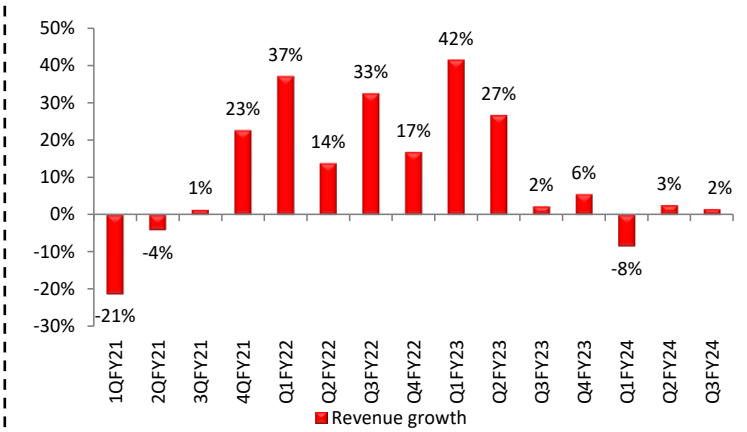
## Exhibit 2: Change in estimates (Rs mn)

Particulars	New Estimates			Old Estimates		Variation (%)	
	FY24E	FY25E	FY26E	FY24E	FY25E	FY24E	FY25E
<b>Net Sales</b>	724,829	794,846	882,879	744,240	833,312	-3%	-5%
<b>EBITDA</b>	266,546	294,519	331,553	269,962	306,689	-1%	-4%
<b>EBITDA Margin</b>	36.8%	37.1%	37.6%	36.3%	36.8%		
<b>Adj. PAT</b>	212,922	231,335	257,967	208,405	236,882	2%	-2%

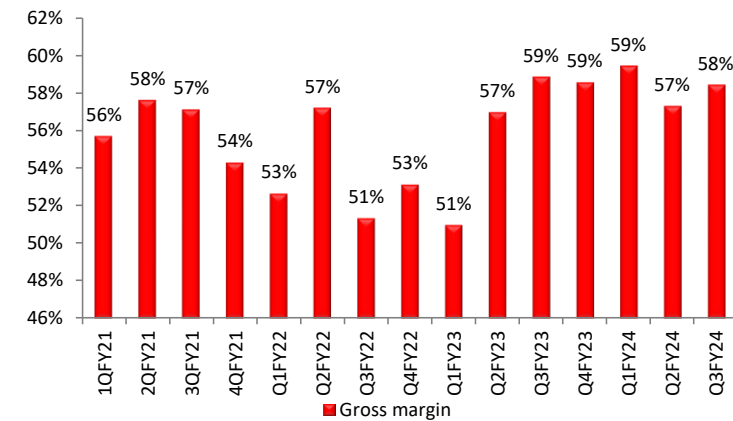
Source: Company, Systematix Institutional Research

**Exhibit 3: Cigarette volume declined 1% on a high base**

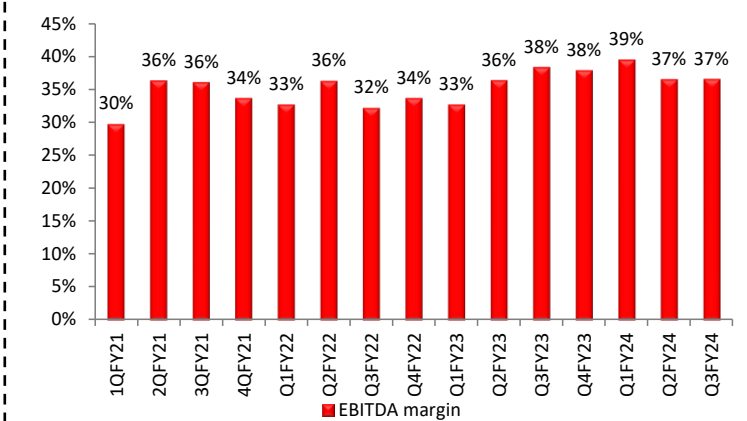
Source: Company, Systematix Institutional Research

**Exhibit 4: Revenue up 1.6% YoY given decline in agri/paper biz**

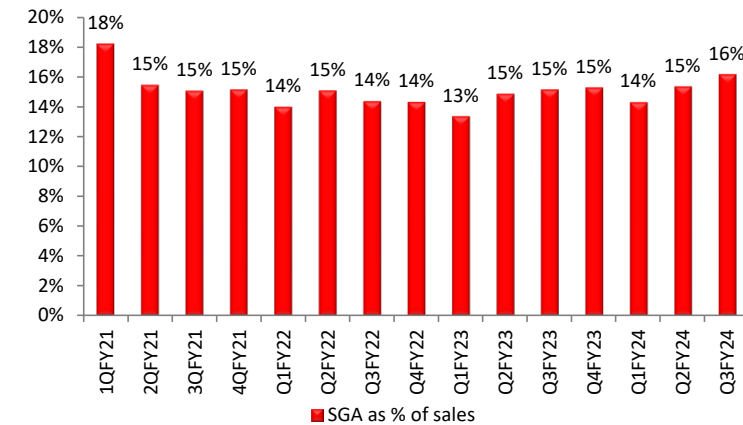
Source: Company, Systematix Institutional Research

**Exhibit 5: Gross margin contracts 44bps YoY**

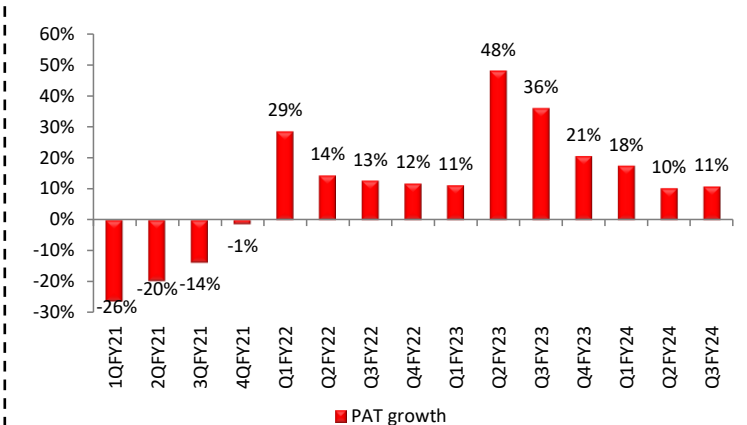
Source: Company, Systematix Institutional Research

**Exhibit 6: EBITDA margin down 181bps YoY**

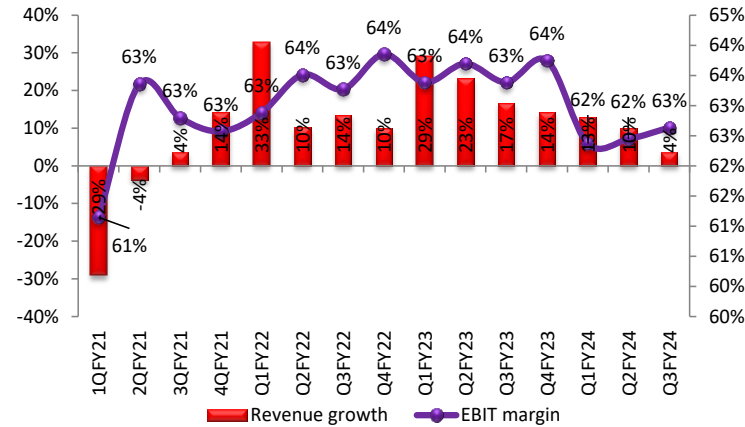
Source: Company, Systematix Institutional Research

**Exhibit 7: SGA expenses increased 101 bps YoY**

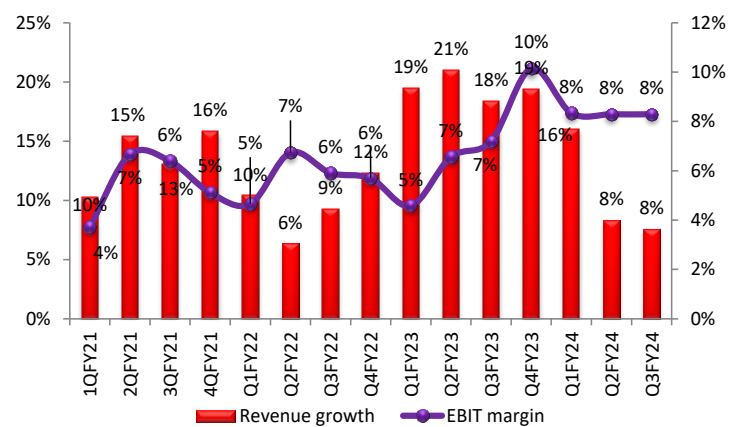
Source: Company, Systematix Institutional Research

**Exhibit 8: PAT grew 10.9% YoY**

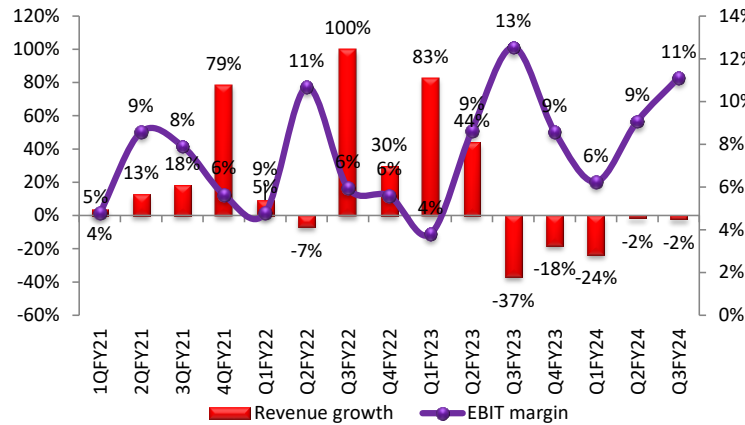
Source: Company, Systematix Institutional Research

**Exhibit 9: Cigarette revenue grew 3.6% YoY**

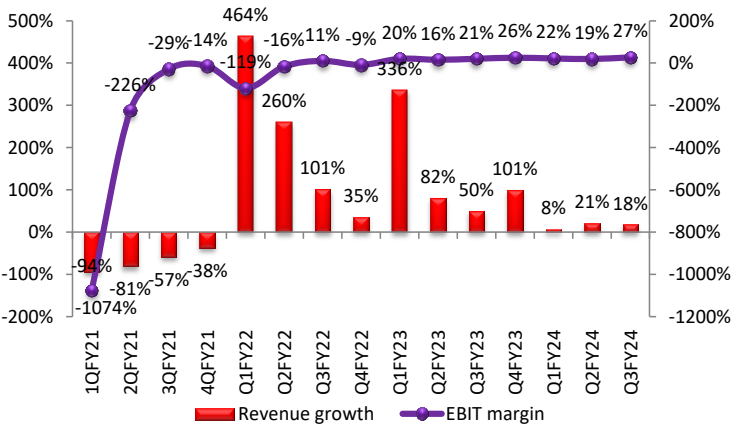
Source: Company, Systematix Institutional Research

**Exhibit 10: FMCG revenue grew 7.6% YoY**

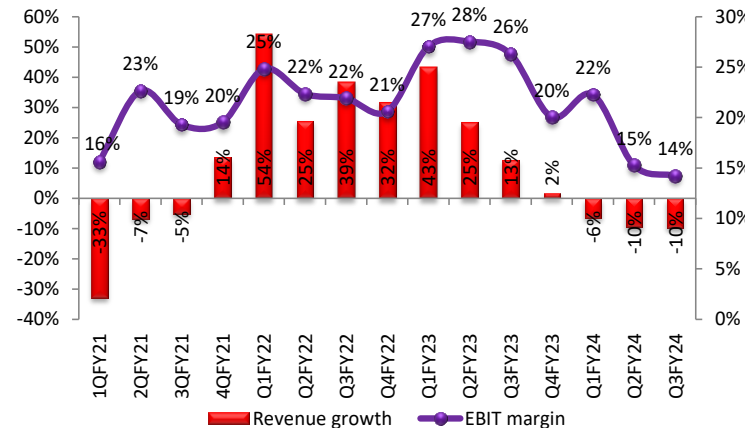
Source: Company, Systematix Institutional Research

**Exhibit 11: Agri business declines 2.2% YoY**

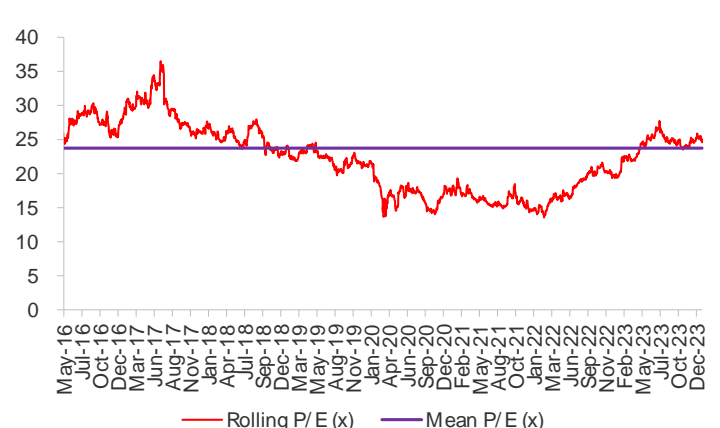
Source: Company, Systematix Institutional Research

**Exhibit 12: Hotel business grew 18.2% YoY**

Source: Company, Systematix Institutional Research

**Exhibit 13: Paper business declines 9.7% YoY**

Source: Company, Systematix Institutional Research

**Exhibit 14: Currently trades at 24.6x one year forward P/E**

Source: Company, Systematix Institutional Research

# FINANCIALS

## Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>6,06,681</b>	<b>7,09,369</b>	<b>7,24,829</b>	<b>7,94,846</b>	<b>8,82,879</b>
Gross profit	3,42,830	4,19,311	4,40,696	4,85,492	5,43,677
GP margin (%)	56.5%	59.1%	60.8%	61.1%	61.6%
<b>Operating profit</b>	<b>2,06,584</b>	<b>2,56,649</b>	<b>2,66,546</b>	<b>2,94,519</b>	<b>3,31,553</b>
OP margin (%)	34.1%	36.2%	36.8%	37.1%	37.6%
Depreciation	17,324	18,090	17,951	20,597	22,097
Interest expense	394	432	454	476	500
Other income	18,364	19,805	35,000	35,000	35,000
Profit before tax	2,07,230	2,57,932	2,83,141	3,08,446	3,43,956
Taxes	52,373	64,384	70,219	77,112	85,989
Tax rate (%)	25.3%	25.0%	24.8%	25.0%	25.0%
<b>Adj. PAT</b>	<b>1,52,427</b>	<b>1,93,549</b>	<b>2,12,922</b>	<b>2,31,335</b>	<b>2,57,967</b>
Exceptional loss	-	(729)	-	-	-
Net profit	1,52,427	1,94,277	2,12,922	2,31,335	2,57,967
<b>EPS</b>	<b>12.4</b>	<b>15.6</b>	<b>17.1</b>	<b>18.6</b>	<b>20.8</b>

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E
Equity capital	12,323	12,428	12,428	12,428	12,428
Reserves	6,12,232	6,79,125	7,00,417	7,23,550	7,49,347
Debt	56	388	35	35	35
Minority Int	3,663	3,835	3,835	3,835	3,835
Deffered tax Liab	16,099	15,770	15,770	15,770	15,770
Other non current liabilities	5,957	9,723	9,723	10,209	10,719
<b>Total liabilities</b>	<b>6,50,331</b>	<b>7,21,269</b>	<b>7,42,208</b>	<b>7,65,827</b>	<b>7,92,134</b>
Fixed Asset	2,62,258	2,76,274	2,89,825	2,99,230	3,07,134
Investments	2,52,052	2,97,673	2,69,946	2,69,946	2,69,946
Other Non-current Assets	37,968	59,982	62,981	66,130	69,437
<b>Inventories</b>	<b>1,08,642</b>	<b>1,17,712</b>	<b>1,35,037</b>	<b>1,43,726</b>	<b>1,59,644</b>
Sundry debtors	24,619	29,562	39,717	45,731	50,796
<b>Cash &amp; equivalents</b>	<b>46,544</b>	<b>48,802</b>	<b>54,922</b>	<b>65,442</b>	<b>75,154</b>
Loans and Advances	39,877	28,305	29,844	33,523	35,345
Sundry creditors	44,173	46,590	47,660	56,619	62,890
Other current liabilities	77,457	90,451	92,404	1,01,281	1,12,431
<b>Total Assets</b>	<b>6,50,331</b>	<b>7,21,269</b>	<b>7,42,208</b>	<b>7,65,827</b>	<b>7,92,134</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E
PBIT	2,07,624	2,58,364	2,83,595	3,08,922	3,44,456
Depreciation	17,324	18,090	17,951	20,597	22,097
Tax paid	(52,373)	(64,384)	(70,219)	(77,112)	(85,989)
Working capital Δ	22,321	(36,716)	(25,996)	(546)	(5,384)
Other operating items	-	-	-	-	-
<b>Operating cashflow</b>	<b>1,94,895</b>	<b>1,75,355</b>	<b>2,05,331</b>	<b>2,51,861</b>	<b>2,75,180</b>
Capital expenditure	(20,022)	(32,106)	(31,502)	(30,001)	(30,001)
<b>Free cash flow</b>	<b>1,74,873</b>	<b>1,43,249</b>	<b>1,73,829</b>	<b>2,21,860</b>	<b>2,45,179</b>
Equity raised	10,374	65,354	0	(0)	0
Investments	(25,398)	4,065	(1,350)	-	-
Debt financing/disposal	(39)	332	(353)	-	-
Interest Paid	(394)	(432)	(454)	(476)	(500)
Dividends paid	(1,41,718)	(1,92,634)	(1,91,630)	(2,08,201)	(2,32,170)
Other items	(17,745)	(17,676)	(2,999)	(2,663)	(2,796)
<b>Net Δ in cash</b>	<b>(46)</b>	<b>2,258</b>	<b>(22,957)</b>	<b>10,520</b>	<b>9,712</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23E	FY24E	FY25E	FY26E
Revenue growth (%)	23.1	16.9	2.2	9.7	11.1
Op profit growth (%)	21.5	24.2	3.9	10.5	12.6
Net profit growth (%)	15.8	27.0	10.0	8.6	11.5
OPM (%)	34.1	36.2	36.8	37.1	37.6
Net profit margin (%)	25.1	27.3	29.4	29.1	29.2
RoCE (%)	33.6	39.0	40.2	42.4	45.8
RoNW (%)	24.8	29.4	30.3	31.9	34.4
EPS (Rs)	12.4	15.6	17.1	18.6	20.8
DPS (Rs)	11.5	15.5	15.4	16.8	18.7
BVPS (Rs)	51.0	56.0	57.7	59.5	61.6
Debtor days	15	15	20	21	21
Inventory days	65	61	68	66	66
Creditor days	27	24	24	26	26
P/E (x)	36.4	28.9	26.3	24.2	21.7
P/B (x)	8.8	8.0	7.8	7.6	7.3
EV/EBITDA (x)	26.6	21.6	20.9	18.9	16.7

Source: Company, Systematix Institutional Research

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