

Marginal Miss On Topline; Maintain BUY

Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA – **INLINE**; PAT – **BEAT**

Changes in Estimates post Q4FY24

FY25E/FY26E – Revenue: 0%/1%; EBITDA: -1%/-2%; PAT: 1%/-1%

Recommendation Rationale

- **Marginal Miss on Topline:** The company's Q4FY24 overall results were inline with estimates, though there was marginal miss on revenue. This was on account of subdued performance in Agri and Paper board business. However, the cigarettes (~2-3% volume growth), FMCG (up 7% YoY) and Hotel (up 15% YoY) businesses maintained their growth momentum. EBITDA declined by 1% YoY owing to subdued performance in Agri and paper board business. The company announced a final dividend of Rs 7.50/ share, taking the total dividend for FY24 to 13.75/ share.
- **We believe ITC's long-term growth outlook remains strong as most businesses** (excluding Agri/Paper) are on track with 1) Growth in cigarette volumes remaining stable led by differentiated and premium offerings, 2) The FMCG business reaching its 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 and 3) The demerger of the hotel business which will strengthen ITC's balance sheet and improve return ratios. Additionally, the reasonable valuations provide a margin of safety.

Sector Outlook: Cautious

Company Outlook & Guidance: We have tweaked our FY26 estimates slightly to account for short term challenges (discretionary spends is seeing slowdown). However, we maintain our Buy rating on the stock as we roll our estimates to Mar-26 EPS.

Current Valuation: 25x Mar'26 EPS (Earlier Valuation: 27x Dec'25 EPS).

Current TP: Rs 500/share (Earlier TP: No change).

Recommendation With an upside potential of 13% from the CMP, we **maintain** our BUY rating on the stock.

Financial Performance: The company's Q4FY24 overall results were inline with estimates though there was marginal miss on revenue. This was on account of subdued performance in Agri and Paper board business. The revenue grew by ~2% YoY to Rs 16,398 Cr. Cigarettes revenue grew 8% YoY (~2-3% volume growth), FMCG revenue grew ~7% YoY led by broad-based growth across categories, despite subdued demand conditions. Hotel Business maintained its stellar performance, with revenues up by 15% YoY led by retail and MICE. Gross margins stood at 59.4%, up 159bps YoY, while EBITDA declined 1% YoY. EBITDA margins stood at 37.6% (down by 95bps YoY) due to subdued performance in Agri and Paperboard business. The reported PAT was Rs 5,020 Cr (down 1% YoY)

A) Cigarettes (~80% of EBIT) – ITC's Cigarettes revenue growth was strong at 8%YoY (2-3% volume growth) despite high base, while EBIT grew 5% YoY. EBIT margins declined by 162bps YoY to 62.1% owing to higher RM (tobacco) and increase in taxes.

Outlook: We believe ITC's 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. Valuations of other larger players (HUL/ Nestle) stand elevated which makes ITC a better play on a long term basis.

Valuation & Recommendation: We have tweaked our FY26 estimates slightly to account for short term challenges (discretionary spends is seeing slowdown). However we maintain our **Buy** rating on the stock as we roll our estimates to Mar-26 EPS.

Key Financials (Standalone)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	16,398	0.5	1.8	16,616	-1.3
EBITDA	6,163	2.3	-0.8	6,106	0.9
EBITDA Margin (%)	37.6	65 bps	-95 bps	36.7	83 bps
Net Profit	5,020	-9.9	-1.3	4,879	2.9
EPS (Rs)	4.0	-10.0	-1.8	3.9	2.3

Source: Company, Axis Research

(CMP as of 23rd May 2024)

CMP (Rs)	441
Upside /Downside (%)	13%
High/Low (Rs)	499/399
Market cap (Cr)	5,50,825
Avg. daily vol. (6m)Shrs.'000	20,319
No. of shares (Cr)	1248

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	0.0	0.0	0.0
FII's	43.3	43.3	41.0
MFs / UTI	9.4	9.7	11.6
Banks / FI's	7.9	7.9	7.9
Others	39.3	39.2	39.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	64,782	71,448	78,903
EBITDA	24,479	27,159	30,274
Net Profit	20,430	22,586	25,082
EPS (Rs.)	16.4	18.1	20.1
PER (x)	26.9	24.4	22.0
EV/EBITDA (x)	21.7	19.4	17.2
P/BV (x)	7.8	7.2	6.6
ROE (%)	28.8	29.7	30.0

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0%	-1%
EBITDA	-1%	-2%
PAT	1%	-1%

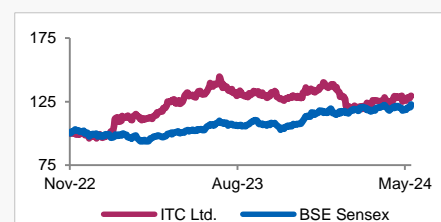
ESG disclosure Score**

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

Preeyam Tolia

Research Analyst
 email: preeyam.tolia@axissecurities.in

Suhanee Shome

Research Associate
 email: suhanee.shome@axissecurities.in

Other Key takeaways

- **FMCG (others)** – The company's FMCG business delivered a resilient performance amidst subdued demand conditions and high base. Segment revenue was up by 7% YoY, led by broad based growth across categories. Its reported EBIT margins declined by 114bps to 9%, mainly on account of high base which included fiscal incentives. Adjusting for that, EBIT margins expanded by 60 bps YoY.
- **Hotels** – The Hotels division maintained strong performance with revenues up by 15% YoY led by strong growth in ARRs and occupancies across properties driven by retail and MICE segments. Its EBIT grew 34% while margins improved by 421bps YoY to 29.7%, led by higher realisation, structural cost interventions & operating leverage. Demerger - NCLT has directed for convening a meeting of ITC's shareholders on June 6, 2024 to consider and approve the scheme.
- **Paperboards** – Revenues declined by 7% YoY, and EBIT declined 34% 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 13% YoY on account of trade restrictions on agri commodities.
- **ITC Infotech** – Revenue stood at Rs 993 Cr (up 13% YoY). For FY24 revenue stood at Rs 3730 Cr, up 12% YoY. Q4FY24 EBITDA stood at Rs 217 Cr, up 37% YoY, while for full year the EBITDA stood at Rs 691 Cr, up 19% 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	71,675	79,437	71,448	78,903	0%	-1%
EBITDA	27,452	30,880	27,159	30,274	-1%	-2%
PAT	22,457	25,263	22,586	25,082	1%	-1%
EPS	18.1	20.3	18.1	20.1	1%	-1%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q4FY23	Q3FY24	Axis Sec Est.	Q4FY24	YoY growth %	QoQ growth %	Axis Sec Est. Var (%)
Volume growth est. (% yoy)	12.0	-2.0	3.0	2.0	-1000 bps	400 bps	
Net sales	16,116	16,314	16,616	16,398	1.75	0.51	(1.3)
Other operating Income	282	169	129	181	(35.78)	7.16	40.4
Gross Profits	9,322	9,465	9,720	9,745	4.54	2.96	0.3
Gross Margin (%)	57.8	58.0	58.5	59.4	159 bps	141 bps	93 bps
Staff costs	894	950	921	969	8.44	2.06	5.3
Other operating expenses	2,500	2,660	2,822	2,794	11.75	5.06	(1.0)
EBITDA	6,209	6,024	6,106	6,163	(0.75)	2.30	0.9
EBITDA margin (%)	38.5	36.9	36.7	37.6	-95 bps	65 bps	83 bps
Other Income	746	1,135	915	799	7.01	(29.66)	(12.8)
Interest	12	12	11	12	2.45	(2.10)	14.2
Depreciation	422	417	417	415	(1.56)	(0.33)	(0.5)
PBT	6,522	6,731	6,593	6,534	0.18	(2.92)	(0.9)
Tax	1,508	1,153	1,714	1,512	0.24	31.10	(11.8)
Tax rate (%)	23.1	17.1	26.0	23.1	1 bps	600 bps	
Reported PAT	5,087	5,572	4,879	5,020	(1.31)	(9.90)	2.9
Reported EPS	4.1	4.5	3.9	4.0	(1.76)	(9.97)	2.3

Source: Company, Axis Securities

Segmental Performance

Segment Revenue	Q4FY23	Q3FY24	Q4FY24	YoY%	QoQ (%)
Cigarette	7,356	7,549	7,925	7.7%	5.0%
Other FMCG	4,945	5,209	5,300	7.2%	1.7%
Hotel	782	842	898	14.9%	6.6%
AgriBusiness	3,579	3,055	3,101	-13.4%	1.5%
Paper Board	2,221	2,081	2,073	-6.7%	-0.4%
Total	18,882	18,736	19,297	2.2%	3.0%

% Revenue Contribution	Q4FY23	Q3FY24	Q4FY24	YoY%	QoQ (%)
Cigarette	39.0%	40.3%	41.1%	211bps	78bps
Other FMCG	26.2%	27.8%	27.5%	128bps	-34bps
Hotel	4.1%	4.5%	4.7%	51bps	16bps
AgriBusiness	19.0%	16.3%	16.1%	-288bps	-24bps
Paper Board	11.8%	11.1%	10.7%	-102bps	-36bps

Segment EBIT	Q4FY23	Q3FY24	Q4FY24	YoY%	QoQ (%)
Cigarette	4,689	4,728	4,923	5.0%	4.1%
Other FMCG	502	432	477	-4.9%	10.5%
Hotel	200	230	267	33.8%	16.3%
AgriBusiness	307	339	203	-34.0%	-40.3%
Paper Board	445	296	293	-34.1%	-0.9%

Segment EBIT Margin %	Q4FY23	Q3FY24	Q4FY24	YoY%	QoQ (%)
Cigarette	63.7%	62.6%	62.1%	-162bps	-51bps
Other FMCG	10.1%	8.3%	9.0%	-114bps	71bps
Hotel	25.5%	27.3%	29.7%	421bps	247bps
AgriBusiness	8.6%	11.1%	6.5%	-205bps	-457bps
Paper Board	20.0%	14.2%	14.2%	-588bps	-7bps

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E
Net sales	65,273	64,782	71,448	78,903
Growth, %	17	(1)	10	10
Other operating income	770	659	725	797
Total income	66,043	65,441	72,173	79,701
Raw material expenses	(28,880)	(26,982)	(29,545)	(32,352)
Employee expenses	(3,569)	(3,732)	(4,143)	(4,557)
Other Operating expenses	(9,649)	(10,248)	(11,325)	(12,518)
EBITDA (Core)	23,944	24,479	27,159	30,274
Growth, %	26	2	11	11
Margin, %	37	38	38	38
Depreciation	(1,663)	(1,648)	(1,762)	(1,884)
EBIT	22,282	22,831	25,397	28,390
Growth, %	29	2	11	12
Margin, %	34	35	36	36
Interest paid	(42)	(46)	(46)	(47)
Other Income	2,438	3,538	3,751	3,976
Non-recurring Items	73	(8)	-	-
Pre-tax profit	24,750	26,316	29,102	32,319
Tax provided	(5,997)	(5,894)	(6,516)	(7,236)
Profit after tax	18,753	20,422	22,586	25,082
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,243	1,248	1,248	1,248
Wtd avg shares (Cr)	1,243	1,248	1,248	1,248

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Mar,	FY23	FY24	FY25E	FY26E
Cash & bank	3,831	4,171	7,373	13,068
Marketable securities at cost	16,357	16,357	16,357	16,357
Debtors	2,321	4,437	4,894	5,404
Inventory	10,594	10,514	11,596	12,806
Loans & advances	6	6	6	6
Other current assets	2,094	2,094	2,094	2,094
Total current assets	35,203	37,580	42,320	49,735
Investments	16,364	16,364	16,364	16,364
Gross fixed assets	34,261	36,761	39,361	41,961
Less: Depreciation	(10,087)	(11,735)	(13,496)	(15,380)
Add: Capital WIP	1,697	1,697	1,697	1,697
Net fixed assets	25,871	26,723	27,561	28,277
Non-current assets	4,824	4,824	4,824	4,824
Total assets	82,262	85,490	91,069	99,200
Current liabilities	11,639	11,606	12,057	12,561
Provisions	978	976	997	1,020
Total current liabilities	12,617	12,583	13,054	13,582
Non-current liabilities	2,050	2,058	2,058	2,058
Total liabilities	14,668	14,641	15,112	15,640
Paid-up capital	1,243	1,243	1,243	1,243
Reserves & surplus	66,351	69,607	74,714	82,318
Shareholders' equity	67,594	70,849	75,957	83,560
Total equity & liabilities	82,262	85,490	91,069	99,200

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E
Pre-tax profit	24,750	26,316	29,102	32,319
Depreciation	1,663	1,648	1,762	1,884
Chg in working capital	(796)	(2,063)	(1,067)	(1,193)
Total tax paid	(5,818)	(5,894)	(6,516)	(7,236)
Other operating activities	-	-	-	-
Cash flow from operating activities	19,799	20,007	23,281	25,773
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	17,507	20,681	23,173
Equity raised/(repaid)	2,567	-	-	-
Debt raised/(repaid)	(1)	-	-	-
Dividend (incl. tax)	(19,255)	(17,166)	(17,479)	(17,479)
Cash flow from financing activities	(16,689)	(17,166)	(17,479)	(17,479)
Net chg in cash	(4,176)	340	3,202	5,694
Opening cash balance	3,878	3,831	4,171	7,373
Closing cash balance	3,831	4,171	7,373	13,068

Source: Company, Axis Securities

Ratio Analysis
(%)

	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	15.0	16.4	18.1	20.1
Growth, %	23.0	8.9	10.6	11.1
Book NAV/share (INR)	54.4	56.7	60.8	66.9
FDEPS (INR)	15.0	16.4	18.1	20.1
CEPS (INR)	16.3	17.7	19.5	21.6
CFPS (INR)	15.6	13.2	15.6	17.5
DPS (INR)	15.5	13.8	14.0	14.0
Return ratios				
Return on assets (%)	23.9	24.4	25.6	26.4
Return on equity (%)	27.6	28.8	29.7	30.0
Return on capital employed (%)	28.2	28.6	29.9	30.6
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	38.5	38.6	38.8
Working capital days	14.5	26.3	29.4	32.3
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	499.3	549.9	608.6
Net debt/Equity (%)	(5.7)	(5.9)	(9.7)	(15.6)
Valuation				
PER (x)	29.3	26.9	24.4	22.0
PEG (x) - y-o-y growth	1.3	3.0	2.3	2.0
Price/Book (x)	8.1	7.8	7.2	6.6
EV/Net sales (x)	8.1	8.2	7.4	6.6
EV/EBITDA (x)	22.0	21.7	19.4	17.2
EV/EBIT (x)	23.7	23.2	20.7	18.4

Source: Company, Axis Securities

ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
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
24-May-24	BUY	500	Result Update

Source: Axis Securities

About the analyst



Analyst: Preeyam Tolia

Contact Details: preeyam.tolia@axissecurities.in

Sector: FMCG & Retail

Analyst Bio: Preeyam Tolia is B.com and CFA Level 1 and part of the Axis Securities Research Team.

About the analyst



Analyst: Suhanee Shome

Contact Details: suhanee.shome@axissecurities.in

Sector: FMCG & Retail

Analyst Bio: Suhanee Shome is MBA and part of the Axis Securities Research Team

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