

# Q1FY25 ITC LTD.



**ITC Ltd.**
**Healthy performance led by FMCG, Agri, and Cigarettes segments; positive outlook for H2FY25E**

CMP INR 506*	Target INR 545	Potential Upside 7.7%	Market Cap (INR Mn) 63,17,410	Recommendation <b>ACCUMULATE</b>	Sector Consumer
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**Result highlights**

- For Q1FY25, ITC reported consolidated net sales of INR 184,573 Mn (+7.5% YoY/ +3.0% QoQ), which was in line with our estimates.
- Gross margin declined by 130 bps YoY (-271 bps QoQ). In Q1FY25, EBITDA was INR 67,484 Mn (+1.2% YoY/ +1.8% QoQ), which was in line with our estimates. The EBITDA margin declined by 230 bps YoY (-41 bps QoQ) to 36.6%.
- Reported PAT stood at INR 50,916 Mn (-0.3% YoY/ -0.6% QoQ).
- Adj. PAT for the quarter stood at INR 50,946 Mn (-0.2% YoY/ -0.5% QoQ), which was largely in line with our estimates.
- We maintain our FY25E/26E Adj. EPS as we expect stability in taxes and recovery in rural markets. **We apply the SOTP approach and apply multiples (cigarette business at 15.5x EV/EBITDA, Hotels at 17.3x, Paper business at 4.1x, Agri business at 4.5x, and FMCG at 9.0x EV/Revenue) and arrive at a target price of INR 545/share (previously: INR 517); offering an upside of 7.7% from current levels. Accordingly, we downgrade our rating to “ACCUMULATE” from “BUY” on ITC Ltd shares, considering that the share price has appreciated by 17.4% since our last quarterly result update.**

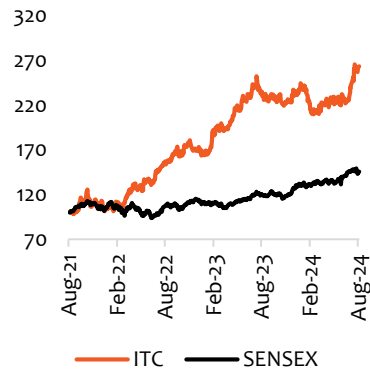
**MARKET DATA**

Shares O/S (Mn)	12,485
Mkt Cap (INR Mn)	63,17,410
52 Wk H/L (INR)	510/399
Volume Avg (3m K)	17,270
Face Value (INR)	1
Bloomberg Code	ITC IN

**KEY FINANCIALS**

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales (net of excise)	492,728	606,681	709,369	708,810	747,999	826,977
EBITDA	170,027	206,584	256,649	262,544	279,093	309,494
PAT	131,612	152,427	191,917	204,588	217,356	240,524
Adj PAT	131,612	152,427	191,188	204,664	217,387	240,524
Diluted EPS (INR)	10.7	12.4	15.5	16.3	17.4	19.2
Diluted Adj. EPS (INR)	10.7	12.4	15.4	16.3	17.4	19.2
EBITDA Margin (%)	34.5%	34.1%	36.2%	37.0%	37.3%	37.4%
Adj. NPM (%)	26.7%	25.1%	27.0%	28.9%	29.1%	29.1%

Source: Company, KRChoksey Research

**SHARE PRICE PERFORMANCE**

**MARKET INFO**

SENSEX	81,053
NIFTY	24,812

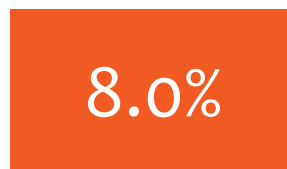
**Focused businesses continue to drive revenue growth, while weakness in paperboard businesses persists**

- For Q1FY25, ITC reported consolidated net sales of INR 200,296 Mn, (+7.5% YoY/ +3.0% QoQ), led by the overall performance of all segments except for Paperboards, Paper, and Packaging segments.
- On a segmental basis (consolidated), **Cigarette** revenue grew by 5.8% YoY (+1.8% QoQ), driven by differentiated variants and the premium segment, while the value segment improved sequentially. The Cigarette volume grew by ~3.0% YoY.
- The revenue from **FMCG- Others** witnessed a growth of 6.3% YoY (+3.6% QoQ), led by staples, snacks, dairy, personal wash, fragrances, home care, and agarbatti (incense sticks). An extreme heatwave hit discretionary/out-of-home consumption categories, whereas competitive intensity remained high in biscuits, snacks, noodles, soaps, and education and stationery products.
- **Hotels** revenue growth was at 14.1% YoY (-23.4% QoQ). The Company showed YoY growth despite fewer wedding dates, extreme heatwaves, and elections impacting domestic travel and out-of-home dining.
- **Agri** revenue showed a robust growth of 22.2% YoY (+123.1% QoQ), led by value-added agri products (coffee & spices), leaf tobacco, and wheat.
- **Paperboards, Paper & Packaging** revenue declined by 6.8% YoY (-4.6% QoQ) due to low-priced Chinese supplies in international markets (including India), subdued domestic demand, a surge in wood costs, and a high base effect.

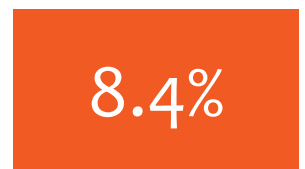
**SHARE HOLDING PATTERN (%)**

Particulars	Jun-24	Mar-24	Dec-23
Promoters	0.0	0.0	0.0
FIIs	40.5	41.0	43.3
DIIs	44.0	43.8	42.0
Others	15.5	15.2	14.7
Total	100	100	100

\*Based on Previous closing



Net Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

## ITC Ltd.

### Margins under pressure amid varied sector performance and rising costs

- Gross margin for the quarter declined by 130bps YoY (-271bps QoQ). EBITDA for the quarter was at INR 67,484 Mn, a growth of 1.2% YoY (+1.8% QoQ). EBITDA margin was at 36.6%, contracted by 230bps YoY (-41bps QoQ) on account of higher other operating expenses.
- EBIT margin for the Cigarettes segment was (+26bps YoY,+7bps QoQ), expanded marginally as input cost inflation was offset by improved mix, strategic cost management, and calibrated pricing.
- EBIT margin for FMCG-Others was higher by 33bps YoY but lower by 33bps QoQ. The YoY growth was led by premiumization, supply chain optimization, and strategic cost management.
- EBIT margin for the Paperboards, Paper & Packaging segment was significantly lower by 926bps YoY (-108bps QoQ), due to modest realizations and a continued surge in domestic wood prices. Some early signs of recovery are visible in domestic demand ahead of the festive period.
- Hotels segment EBIT margin witnessed a steep decline of 123bps YoY (-102bps QoQ).
- Agri business EBIT margin reported a further fall of 123bps YoY (-102bps QoQ). The significant increase in leaf tobacco prices and other agri commodities, as well as ocean freight and supply chain disruptions, harmed the Agri business margins.

### Key Press Release Highlights:

#### Cigarettes

- The Company continues to counter illicit trade and reinforce market standing by fortifying the product portfolio through innovation, making premium options more accessible across all segments, and ensuring excellent execution.
- Stability in cigarette taxes, combined with strict enforcement against illegal trade, helped the legal cigarette industry recover volumes, boosting demand for Indian tobacco and increasing government revenue from the tobacco sector.
- The significant rise in the costs of leaf tobacco and other inputs was mainly offset by a better product mix, strategic cost management, and carefully adjusted pricing.

#### FMCG-Others

- The extreme heatwave negatively affected categories that rely heavily on discretionary and out-of-home consumption.
- However, emerging channels such as Modern Trade, E-commerce, and Quick Commerce saw strong growth due to the effective execution of channel-specific business plans, strategic collaborations, tailored assortments, and category-focused sales strategies.
- Competition remained intense in categories such as biscuits, snacks, noodles, popular soaps, and education and stationery products, including from local and regional players.
- While commodity prices were mostly stable during the quarter compared to the same period last year, certain items, such as sugar, potatoes, chocolate cream, and edible oil, experienced sequential increases.

#### Hotels

- The Company experienced strong growth across its properties, despite challenges such as fewer wedding dates, extreme heatwaves, and elections affecting domestic travel and out-of-home dining.
- In April 2024, the Company opened its first international property, ITC Ratnadipa, in Colombo, Sri Lanka. Currently, 225 rooms are operational at ITC Ratnadipa. Occupancy rates at the new property are steadily increasing.

#### Paperboards, Paper, and Packaging

- The performance in the Paperboards, Paper & Packaging segment was affected by the influx of low-priced Chinese supplies in global markets, including India.
- The segment also faced muted domestic demand and an unprecedented increase in domestic wood costs.
- Margins continued to be pressured by subdued realizations, a surge in domestic wood prices, and high ocean freight costs.
- Signs of recovery in domestic demand were observed ahead of the festive season.
- Value Added Paperboard (VAP) grades showed sequential improvement in net realization rates.

#### Agri

- As part of its strategy to expand the value-added Agri portfolio, the business achieved strong growth in spice and coffee exports.
- The Company continues to utilize the advanced capabilities of its state-of-the-art value-added spices processing facility in Guntur to boost exports.
- Agile operations, strong customer relationships, and new business development drove robust growth in leaf tobacco exports.
- The steep increase in green leaf procurement prices put pressure on margins, though strategic cost management initiatives helped to partially offset the impact.
- The state-of-the-art facility to manufacture and export Nicotine and Nicotine derivative products conforming to US and EU pharmacopeia standards, set up by the Company's wholly-owned subsidiary, ITC IndiVision Limited, was commissioned in the previous quarter and recently received EU REACH approvals. Customer trials are underway, and export shipments are expected to be scaled up progressively.

#### Other highlights

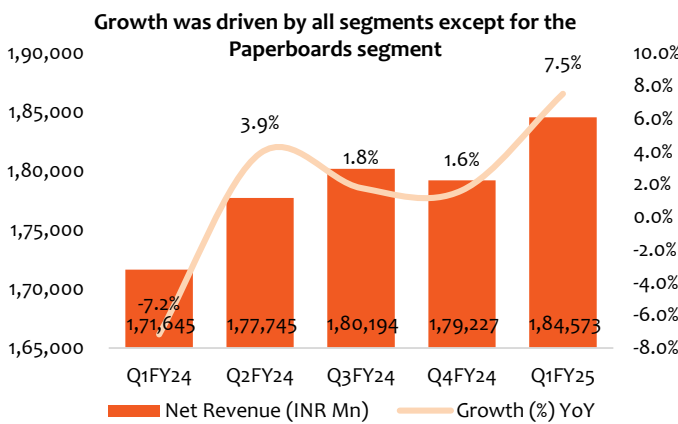
- The Company's digitally powered eB2B platform, the UNNATI app, now available in several vernacular languages, covers nearly 0.7 Mn outlets. The app facilitates sharp and direct engagement with retailers. It offers superior analytics and personalized recommendations of hyperlocal product baskets based on consumer purchase insights.
- The Company's shareholders approved the Scheme of Arrangement for demerger at the NCLT-convened meeting held on June 6, 2024. A petition for sanction of the Scheme has been filed with NCLT on July 22, 2024.
- Moderating inflation, improving agri terms of trade, an expectation of normal monsoons, and the Government's thrust on public infrastructure and the rural sector augur well for a pick-up in consumption demand, building on the green shoots of recovery visible in rural markets.

## ITC Ltd.

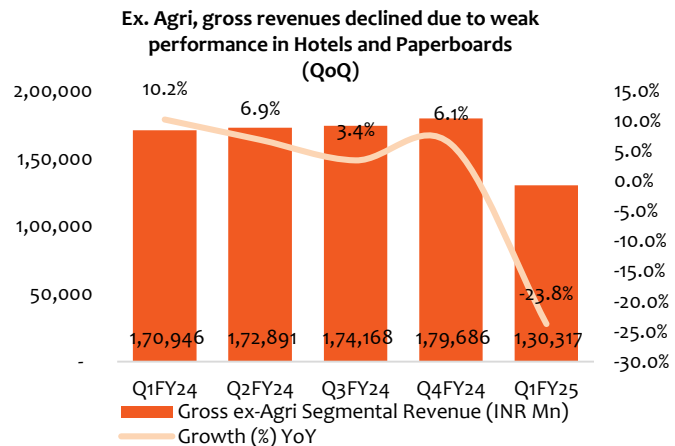
### Valuation and view

For Q1FY25, ITC reported an in-line performance with our estimates in terms of overall earnings. The Company demonstrated resilience across its segments, with notable advancements in Cigarettes, FMCG, Hotels, and Agri businesses. The Paperboard segments continued to be laggard during the quarter. Innovations, strategic expansions, and effective cost management contribute to growth, despite challenges. The positive outlook is supported by rural recovery signs, stable commodity prices, and favorable macroeconomic conditions, positioning the Company for consistent earnings growth in coming quarters.

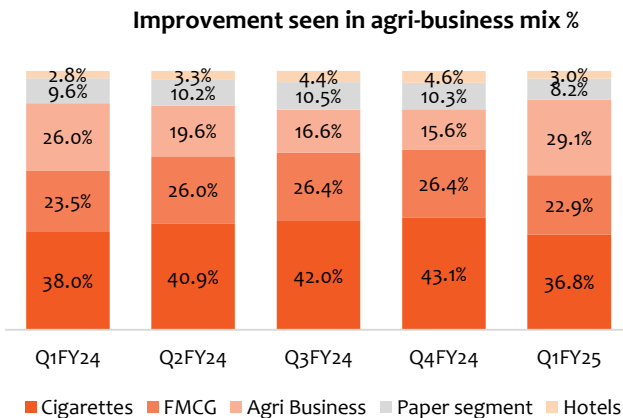
We maintain our FY25E/26E Adj. EPS on the back of stability in taxes, and recovery in rural markets. We anticipate a promising outlook for H2FY25E, with accelerated pricing growth and gradual recovery in rural FMCG, bolstering the Company's performance. We value ITC shares using the SOTP (sum of the parts) approach, applying 15.5x EV/EBITDA (previously: 15.2x) on the FY26E EBITDA of the Cigarette business; 17.3x EV/EBITDA (unchanged) on the FY26E EBITDA of the Hotels business; 4.5x EV/EBITDA (unchanged) on FY26E EBITDA of Agri-business; 4.1x EV/EBITDA (unchanged) on FY26E EBITDA of the paper business; and 9.0x EV/Revenue (previously: 8.2x) on FY26E Revenue of FMCG business. We arrive at the target price of INR 545 per share (earlier INR 517 per share); an upside of 7.7% over the CMP. However, since our last update the stock has jumped significantly (+17.4%), limiting the scope for further upside. Accordingly, we downgrade our rating to "ACCUMULATE" from "BUY" on ITC Ltd shares.



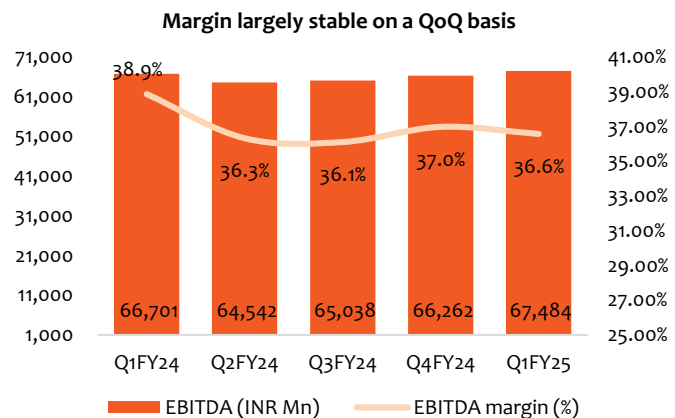
Source: Company, KRChoksey Research



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Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

## ITC Ltd.

### KEY FINANCIALS

Q1 FY25 Results (INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
<b>Gross Operating Revenue</b>	<b>200,296</b>	<b>194,465</b>	<b>186,395</b>	<b>3.0%</b>	<b>7.5%</b>
Net sales	184,573	179,227	171,645	3.0%	7.5%
<b>Total Expenditure</b>	<b>117,089</b>	<b>112,965</b>	<b>104,944</b>	<b>3.7%</b>	<b>11.6%</b>
Cost of Raw Materials	54,915	55,503	50,549	-1.1%	8.6%
Purchase of Stock	31,112	13,754	18,284	126.2%	70.2%
Changes in Inventories	-13,190	-3,387	-3,336	289.4%	295.4%
Employee Cost	16,729	15,580	14,821	7.4%	12.9%
Other Expenses	27,523	31,515	24,626	-12.7%	11.8%
<b>EBITDA</b>	<b>67,484</b>	<b>66,262</b>	<b>66,701</b>	<b>1.8%</b>	<b>1.2%</b>
<b>EBITDA Margins (%)</b>	<b>36.6%</b>	<b>37.0%</b>	<b>38.9%</b>	<b>-41 bps</b>	<b>-230 bps</b>
Depreciation	4,986	4,614	4,425	8.0%	12.7%
<b>EBIT</b>	<b>62,498</b>	<b>61,648</b>	<b>62,276</b>	<b>1.4%</b>	<b>0.4%</b>
Interest Expense	113	126	99	-10.6%	13.6%
Other Income	6,949	6,838	7,223	1.6%	-3.8%
<b>PBT</b>	<b>69,335</b>	<b>68,360</b>	<b>69,400</b>	<b>1.4%</b>	<b>-0.1%</b>
Exceptional Items	-30	-21	0	48.3%	NA
Tax	17,611	16,468	17,599	6.9%	0.1%
Share of Profit & MI	-778	-667	-752	16.7%	3.4%
<b>PAT</b>	<b>50,916</b>	<b>51,206</b>	<b>51,049</b>	<b>-0.6%</b>	<b>-0.3%</b>
<b>PAT Margin</b>	<b>27.6%</b>	<b>28.6%</b>	<b>29.7%</b>	<b>-98 bps</b>	<b>-216 bps</b>
<b>Adjusted PAT</b>	<b>50,946</b>	<b>51,226</b>	<b>51,049</b>	<b>-0.5%</b>	<b>-0.2%</b>
<b>Adj. PAT Margin</b>	<b>27.6%</b>	<b>28.6%</b>	<b>29.7%</b>	<b>-98 bps</b>	<b>-214 bps</b>
<b>Diluted EPS (INR)</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>-0.8%</b>	<b>-0.8%</b>
<b>Diluted Adj. EPS (INR)</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>-0.5%</b>	<b>-0.8%</b>

Income Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Gross revenue</b>	<b>652,050</b>	<b>765,182</b>	<b>768,405</b>	<b>811,881</b>	<b>895,331</b>
Excise duty	45,369	55,814	59,595	63,882	68,354
<b>Net Revenues</b>	<b>606,681</b>	<b>709,369</b>	<b>708,810</b>	<b>747,999</b>	<b>826,977</b>
COGS	263,851	290,058	272,472	287,019	319,885
<b>Gross profit</b>	<b>342,830</b>	<b>419,311</b>	<b>436,338</b>	<b>460,980</b>	<b>507,092</b>
Employee cost	48,906	57,362	61,344	64,621	70,069
Other expenses	87,341	105,299	112,451	117,266	127,529
<b>EBITDA</b>	<b>206,584</b>	<b>256,649</b>	<b>262,544</b>	<b>279,093</b>	<b>309,494</b>
<b>EBITDA Margin</b>	<b>34.1%</b>	<b>36.2%</b>	<b>37.0%</b>	<b>37.3%</b>	<b>37.4%</b>
Depreciation & amortization	17,324	18,090	18,164	18,810	19,634
<b>EBIT</b>	<b>189,260</b>	<b>238,559</b>	<b>244,380</b>	<b>260,283</b>	<b>289,860</b>
Interest expense	394	432	460	492	506
Exceptional items	0	729	-76	-30	0
Other income	18,364	19,805	27,278	28,318	29,389
<b>PBT</b>	<b>207,230</b>	<b>258,661</b>	<b>271,123</b>	<b>288,079</b>	<b>318,743</b>
Tax	52,373	64,384	63,885	67,773	74,747
Share of associates/ Minority interest	-2,430	-2,360	-2,650	-2,950	-3,472
<b>PAT</b>	<b>152,427</b>	<b>191,917</b>	<b>204,588</b>	<b>217,356</b>	<b>240,524</b>
<b>Adj. PAT</b>	<b>152,427</b>	<b>191,188</b>	<b>204,664</b>	<b>217,387</b>	<b>240,524</b>
<b>Diluted EPS (INR)</b>	<b>12.4</b>	<b>15.5</b>	<b>16.3</b>	<b>17.4</b>	<b>19.2</b>
<b>Diluted Adj. EPS</b>	<b>12.4</b>	<b>15.4</b>	<b>16.3</b>	<b>17.4</b>	<b>19.2</b>

Cashflow Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	157,755	188,776	171,789	220,946	246,681
Net Cash Flow from/(used in) Investing Activities	(22,385)	(57,323)	15,628	(37,311)	(38,651)
Net Cash Flow from Financing Activities	(135,805)	(130,060)	(185,510)	(184,753)	(204,445)
Net Inc/Dec in cash equivalents	(435)	1,392	1,907	(1,118)	3,585
Opening Balance	3,102	2,667	4,059	5,966	4,848
Closing Balance Cash and Cash Equivalents	2,667	4,059	5,966	4,848	8,433

Source: Company, KRChoksey Research

**ITC Ltd.**

Balance Sheet (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Property, plant and equipment	202,074	211,171	230,823	239,995	249,011
Capital work-in-progress	31,985	29,847	28,511	28,511	28,511
Intangible assets	20,131	27,273	26,781	26,781	26,781
Intangible assets under development	271	186	96	96	96
Right to use assets	8,671	8,749	9,391	9,391	9,391
Investment property	3,642	3,523	3,409	3,409	3,409
Investments	125,767	121,822	181,696	191,696	201,696
Loans	66	55	41	41	41
Other financial assets	15,896	37,398	4,090	4,090	4,090
Deferred tax assets (Net)	635	520	722	722	722
Non-current tax assets (Net)	423	662	449	449	449
Other non-current assets	12,912	13,120	13,799	13,799	13,799
<b>Total non-current assets</b>	<b>430,271</b>	<b>462,121</b>	<b>507,606</b>	<b>526,777</b>	<b>545,794</b>
Inventories	108,642	117,712	141,529	149,085	166,156
Investments	123,737	173,758	130,944	130,944	130,944
Trade receivables	24,619	29,562	40,258	42,536	46,908
Cash and cash equivalents	2,714	4,634	6,259	4,848	8,433
Other Balances with Banks	43,831	44,165	65,921	65,921	65,921
Loans	68	71	98	98	98
Other financial assets	25,654	11,187	11,817	11,817	11,817
Other current assets	13,061	15,618	13,832	13,832	13,832
<b>Total current assets</b>	<b>342,325</b>	<b>396,709</b>	<b>410,655</b>	<b>419,079</b>	<b>444,107</b>
<b>TOTAL ASSETS</b>	<b>772,596</b>	<b>858,830</b>	<b>918,262</b>	<b>945,856</b>	<b>989,901</b>
Equity share capital	12,323	12,428	12,485	12,485	12,485
Other equity	612,232	679,125	732,585	768,406	808,253
Equity attributable to the equity shareholders	624,556	691,553	745,070	780,891	820,738
Non-controlling interests	3,663	3,835	3,830	3,830	3,830
<b>Total equity</b>	<b>628,219</b>	<b>695,388</b>	<b>748,900</b>	<b>784,720</b>	<b>824,567</b>
Borrowings	49	35	18	18	18
Lease liabilities	1,937	2,134	2,306	2,306	2,306
Other financial liabilities	1,445	4,169	4,340	4,340	4,340
Provisions	2,211	2,592	2,883	2,883	2,883
Non-current tax liabilities	16,735	16,290	21,414	21,414	21,414
Other non-current liabilities	364	828	1,497	1,497	1,497
<b>Total non-current liabilities</b>	<b>22,740</b>	<b>26,048</b>	<b>32,458</b>	<b>32,458</b>	<b>32,458</b>
Borrowings	7	353	95	95	95
Trade payables	44,173	46,590	47,978	39,752	43,949
Other financial liabilities	18,129	24,077	21,790	21,790	21,790
Other current liabilities	51,160	55,714	55,947	55,947	55,947
Provisions	796	1,006	1,069	1,069	1,069
Current tax liabilities (Net)	6,871	9,116	9,409	9,409	9,409
<b>Total current liabilities</b>	<b>121,637</b>	<b>137,394</b>	<b>136,904</b>	<b>128,678</b>	<b>132,875</b>
<b>Total liabilities</b>	<b>144,377</b>	<b>163,442</b>	<b>169,362</b>	<b>161,136</b>	<b>165,333</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>772,596</b>	<b>858,830</b>	<b>918,262</b>	<b>945,856</b>	<b>989,901</b>

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	34.1%	36.2%	37.0%	37.3%	37.4%
Tax rate (%)	25.3%	24.9%	23.6%	23.5%	23.5%
Net Profit Margin (%)	25.1%	27.1%	28.9%	29.1%	29.1%
RoE (%)	24.3%	27.6%	27.3%	27.7%	29.2%
RoCE (%)	30.1%	34.3%	32.6%	33.2%	35.1%
Diluted EPS (INR)	12.4	15.5	16.3	17.4	19.2
PE	39.9X	31.9X	30.1X	28.4X	25.7X

Source: Company, KRChoksey Research

**ITC Ltd.**

ITC Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
23-Aug-24	506	545	ACCUMULATE
29-May-24	431	517	BUY
30-Jan-24	438	533	BUY
23-Oct-23	433	533	BUY
16-Aug-23	449	540	BUY
04-Jul 23	466	540	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

**ANALYST CERTIFICATION:**

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