

Q1 show in line; earnings recovery from Q2 key

Consumer Goods ▶ Result Update ▶ August 01, 2025

CMP (Rs): 416 | TP (Rs): 475

We maintain a positive stance on ITC with ADD and a Jun-26E SOTP-based target price of Rs475, as we believe most headwinds are now in the base. Q1FY26 profit was in line with expectations, supported by stable performance in the cigarettes business (revenue up 7.7% with an estimated 6.5% volume growth). Non-cigarette revenue grew 22% YoY, led by a strong 39% growth in the agri business. However, weak margins in other FMCG and the paper segment resulted in an 11% YoY decline in non-cigarette EBIT. Looking ahead, we expect gradual improvement in cigarette performance, driven by improved execution and a catch-up in volume growth relative to the industry—containing market share loss will be key. That said, a near-term overhang persists due to potential cig tax increases linked to the replacement of the compensation cess.

Cigarette business (37% of net sales/84% of EBIT) had an in-line show

Cigarette revenue grew 7.7% YoY (stood in line) with ~6.5% volume growth (vs 5% estimate). Differentiated and premium portfolio continues to drive overall growth. Sequential growth acceleration is heartening, but likely to be lower than industry growth, implying steady market share loss. Innovation, portfolio fortification, and recent launches have been like Q4, where we see a focus on execution. We expect a near-term overhang of tax hikes with replacement of GST compensation cess. We largely maintain estimates, where we shift part of the growth from realization to volume. Segment EBIT margin came in at 71.1%, moderated by 270bps YoY and 80bps QoQ. Segment EBIT grew 3.7% YoY. We expect high costs for leaf tobacco to enter the base from Q2 and expect moderate margin expansion from Q3FY26. We continue to see 10% EBIT CAGR over FY25-28E.

Non-cig portfolio continues to hurt the overall show

Non-cigarettes revenue saw 22% revenue growth YoY, aided by 39% growth in the agri business. Adj for agri, revenue grew 6%. Driven by weakness in the paper and other FMCG businesses, non-cigarette business EBIT fell 11% YoY in Q1. Other FMCG sales grew ~5.2%, with pressure seen in notebooks (ex-Notebook, revenue grew 8.6%). Other FMCG EBITDA declined 16.5% YoY, given a 180bps contraction in OPM to 9.4% in Q1 (up 50 bps QoQ). Digital first and organic portfolio is clocking Rs10bn ARR. The company now generates ~6% of revenue from Quick Commerce channel (50% of ecommerce). Agri business saw an improvement in topline with 39% revenue growth, aided by strong growth in leaf tobacco exports. Segment EBIT grew 22% YoY, with 60bps margin contraction to 4.5%. Paper business saw 7% growth, driven by volume growth, though margin weakness (down by 550bps YoY to 7.7%) caused a 38% EBIT decline.

Valuation to factor improving outlook; share losses in cig a concern

While we see optical performance improvement ahead, steady share loss in cigarettes and expectation of tax increases on cigarettes linked to replacement of compensation cess are likely to keep valuation in check in the near term.

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	14.2

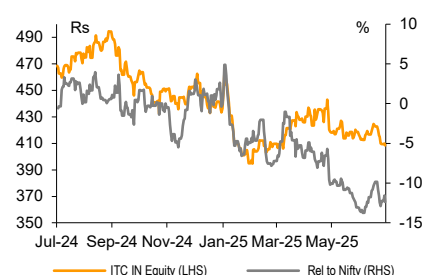
Stock Data	ITC IN
52-week High (Rs)	500
52-week Low (Rs)	390
Shares outstanding (mn)	12,523.6
Market-cap (Rs bn)	5,215
Market-cap (USD mn)	59,587
Net-debt, FY26E (Rs mn)	(357,558.7)
ADTV-3M (mn shares)	18
ADTV-3M (Rs mn)	8,294.4
ADTV-3M (USD mn)	94.8
Free float (%)	100.0
Nifty-50	24,565.3
INR/USD	87.5

Shareholding, Jun-25

Promoters (%)	0.0
FPIs/MFs (%)	38.0/46.9

Price Performance

(%)	1M	3M	12M
Absolute	0.3	(2.2)	(10.8)
Rel. to Nifty	4.3	(3.1)	(9.2)

1-Year share price trend (Rs)**ITC: Financial Snapshot (Standalone)**

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	654,251	693,223	781,478	893,571	1,003,002
EBITDA	244,629	240,236	265,823	313,548	349,480
Adj. PAT	199,453	195,627	213,643	243,542	270,174
Adj. EPS (Rs)	16.0	15.6	17.0	19.3	21.3
EBITDA margin (%)	37.4	34.7	34.0	35.1	34.8
EBITDA growth (%)	2.2	(1.8)	10.7	18.0	11.5
Adj. EPS growth (%)	6.4	(2.1)	8.6	13.4	10.4
RoE (%)	28.5	27.9	30.7	32.9	33.7
RoIC (%)	55.4	55.1	58.8	63.0	65.5
P/E (x)	26.1	14.8	24.5	21.6	19.6
EV/EBITDA (x)	19.7	20.0	18.1	15.4	13.8
P/B (x)	7.2	7.7	7.3	6.9	6.3
FCFF yield (%)	2.8	4.3	2.9	4.1	4.4

Source: Company, Emkay Research

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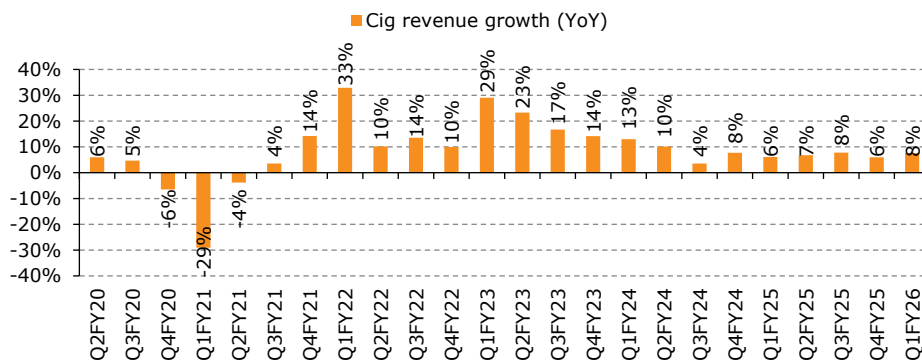
Q1FY26 performance

Exhibit 1: Q1FY26 performance

Y/E Mar (Rs mn)	1QFY26	1QFY25	YoY (%)	4QFY25	QoQ (%)	Emkay est	Var (%)
Total income	197,499	163,734	20.6	172,482	14.5	183,670	7.5
Cost of goods	100,724	71,259	41.4	78,121	28.9	86,302	16.7
Employee expenses	9,155	8,637	6.0	8,694	5.3	9,300	(1.6)
Other expenses	25,008	22,971	8.9	25,803	(3.1)	25,000	0.0
EBITDA	62,613	60,868	2.9	59,864	4.6	63,068	(0.7)
EBITDAM (%)	31.7	37.2	-550bps	34.7	-300bps	34.3	-260bps
Depreciation	3,653	3,554	2.8	3,565	2.5	3,700	(1.3)
EBIT	58,960	57,314	2.9	56,299	4.7	59,368	(0.7)
EBITM (%)	29.9	35.0	-520bps	32.6	-280bps	32.3	-250bps
Interest cost	129	83	55.2	85	51.9	90	43.7
Other income	6,621	6,985	(5.2)	7,955	(16.8)	6,950	(4.7)
PBT	65,451	64,216	1.9	64,169	2.0	66,228	(1.2)
Tax	16,328	16,017	1.9	15,421	5.9	16,557	(1.4)
Tax rate(%)	24.9	24.9	0.0	7.3	241.4	25.0	-0.2
Adj PAT	49,124	48,199	1.9	48,747	0.8	49,671	(1.1)
Non-recurring items	0	975	(100.0)	146,869	(100.0)	0	#DIV/0!
Reported PAT	49,124	49,175	(0.1)	195,616	(74.9)	49,671	(1.1)
NPM (%)	24.9	30.0	-520bps	113.4	-8850bps	27.0	-220bps
EPS (Rs)	3.9	3.9	1.8	3.9	0.7	4.0	(1.4)

Source: Company, Emkay Research

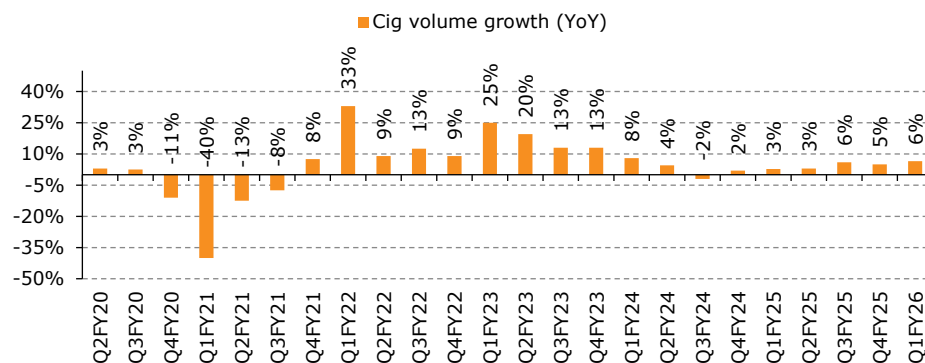
Exhibit 2: Cigarettes – Gross revenue growth



Source: Company, Emkay Research

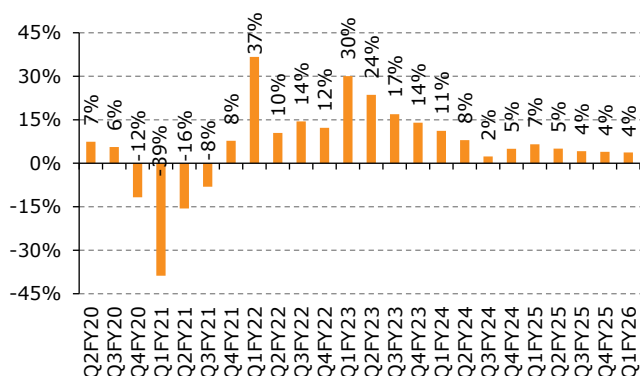
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Exhibit 3: Cigarettes – Volume growth



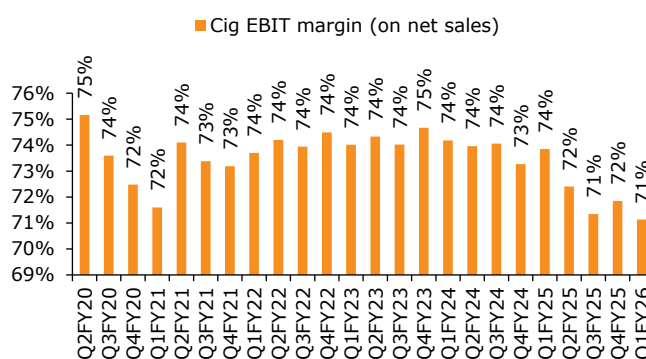
Source: Company, Emkay Research

Exhibit 4: Cigarettes – EBIT growth



Source: Company, Emkay Research

Exhibit 5: Cigarettes – EBIT margin (on net sales)



Source: Company, Emkay Research

Exhibit 6: Estimated per stick analysis

(Rs/stick)	1QFY26A	1QFY25	YoY
MRP sales (Rs)	8.47	8.40	1%
Retailers margin (Rs)	0.77	0.76	1%
Actual price to retailer	7.70	7.64	1%
Distributor margin	0.17	0.17	1%
GST	0.02	0.02	0%
Cess	0.05	0.05	1%
Actual price to distributor	7.46	7.40	1%
GST	0.95	0.94	1%
Cess	3.13	3.11	0%
Gross realization to company	3.39	3.35	1%
Excise	0.00	0.00	0%
NCCD	0.51	0.50	1%
Net realization to company	2.87	2.84	1%
Gross profit	2.51	2.56	-2%
Overheads	0.46	0.46	2%
Ebit	2.05	2.10	-3%
Ebit margin on gross sales	60.4%	62.6%	-225bps
Ebit margin on net sales	71.1%	73.8%	-271bps

Source: Company, Emkay Research

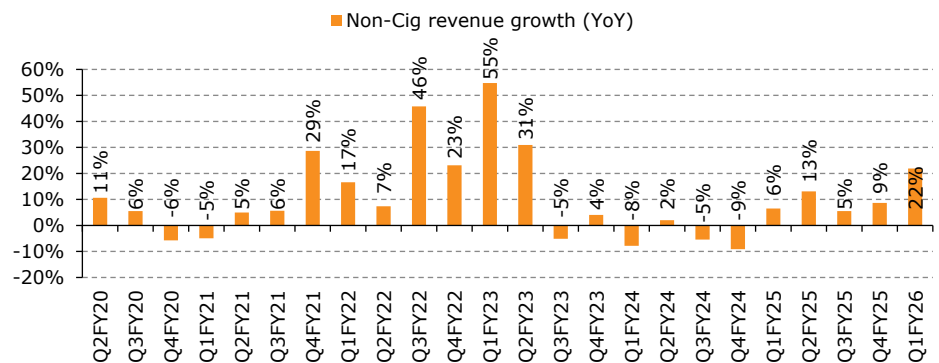
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Exhibit 7: ITC's quarterly cigarette portfolio actions

	Q1FY26/Q4FY25	Q3FY25	Q2FY25	Q1FY25
Innovations	Classic Connect	Classic Connect	Classic Connect	Classic Connect
	American Club Clove Mint	American Club Clove Mint	American Club Clove Mint	American Club Clove Mint
	Gold Flake Indie Mint	Gold Flake Indie Mint	Gold Flake Indie Mint	Gold Flake Indie Mint
		Uni Klov	Uni Klov	Uni Klov
				Gold Flake SLK
				Classic Icon
Portfolio Fortification	Scissors	Scissors	Scissors	Gold Flake Neo SMART Filter
	Flake Spl	Flake Spl	Flake Spl	Bristol Deluxe
	Silk Cut Red	Silk Cut Red	Silk Cut Red	Flake XL
		Classic Burst Portfolio	Classic Burst Portfolio	Flake Skipper
Recent introductions	Classic Clove	Classic Clove		
	Classic Icon	Classic Icon	Classic Icon	Classic Icon Kings
	Gold Flake Social Red	Gold Flake Social Red	Gold Flake Social Red	
	Gold Flake Social 2-Pod	Gold Flake Social 2-Pod	Gold Flake Social 2-Pod	
	Gold Flake Indie Clove	Gold Flake Indie Clove		
	Gold Flake SLK Range	Gold Flake SLK Range	Gold Flake SLK	Gold Flake North Star
	Gold Flake Nova	Gold Flake Nova	Bristol Maja Mix	Bristol Maja Mix
	American Club Just Clove	American Club Just Clove	Gold Flake Tango Mix	Gold Flake Tango Mix
	American Club Super Slims	American Club Super Slims	American Club Super Slims	American Club Super Slims
	Player's Aromix	Player's Aromix		
	Flake Insta Fresh	Flake Insta Fresh		
	Wave Boss	Wave Boss		
	Capstan Clove	Gold Flake North Star		
	Flight	Flight	Flight	Flight
	Scissors Super Mix			

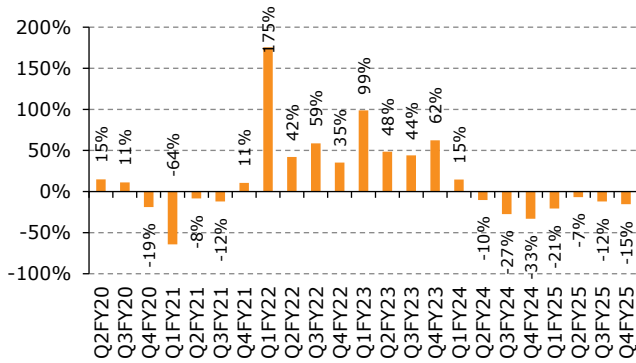
Source: Company, Emkay Research

Exhibit 8: Non-cigarette revenue growth

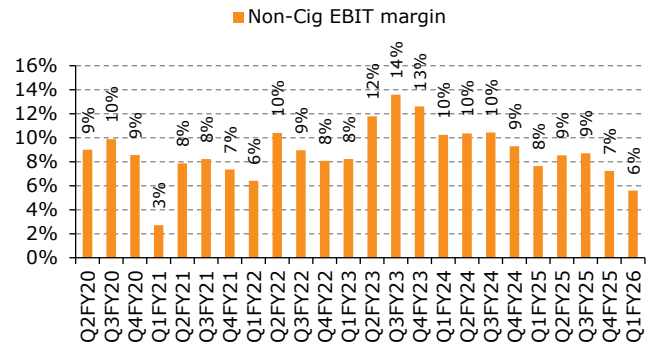


Source: Company, Emkay Research

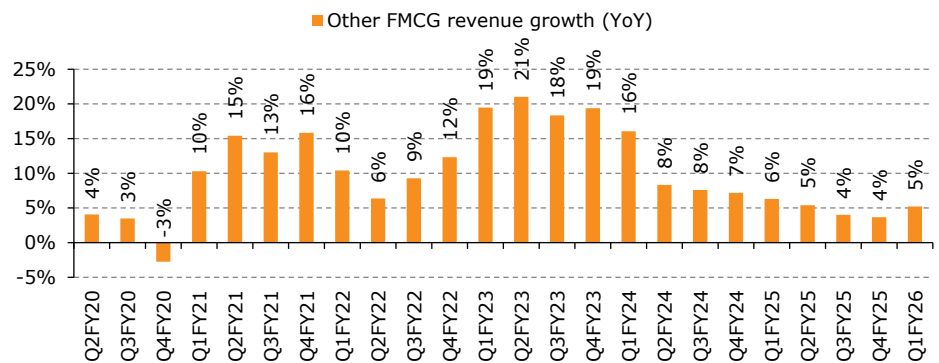
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Exhibit 9: Non-cigarette EBIT growth

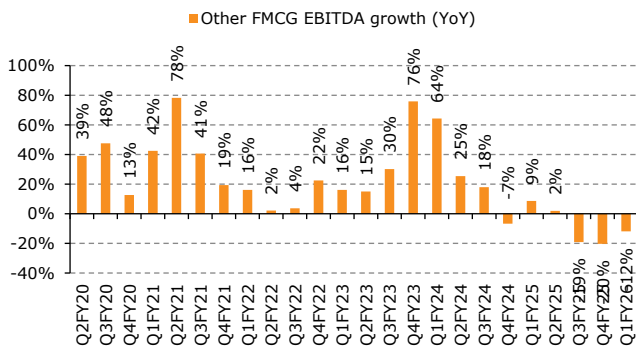
Source: Company, Emkay Research

Exhibit 10: Non-cigarette EBIT margin

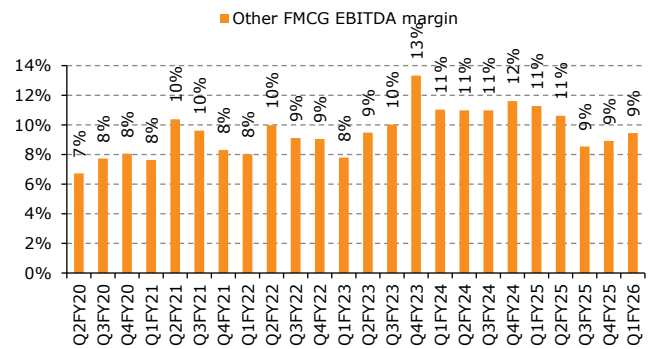
Source: Company, Emkay Research

Exhibit 11: Other FMCG revenue growth

Source: Company, Emkay Research

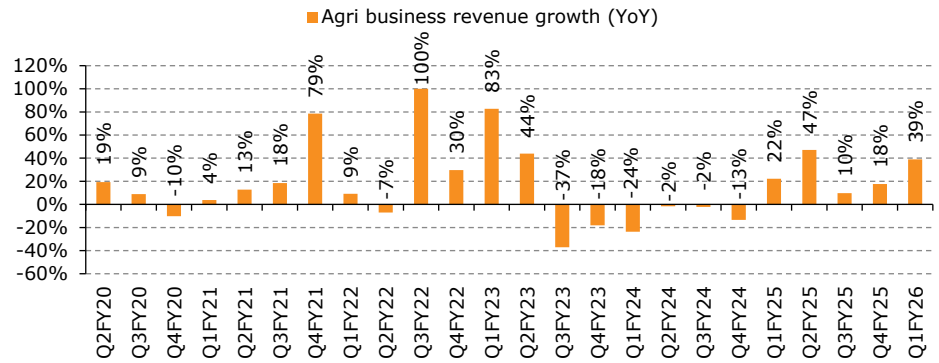
Exhibit 12: Other FMCG EBITDA growth

Source: Company, Emkay Research

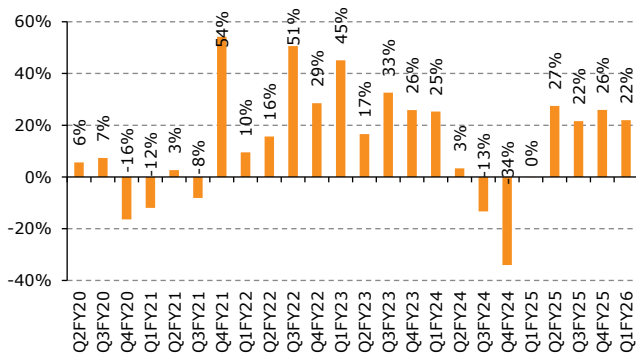
Exhibit 13: Other FMCG EBITDA margin

Source: Company, Emkay Research

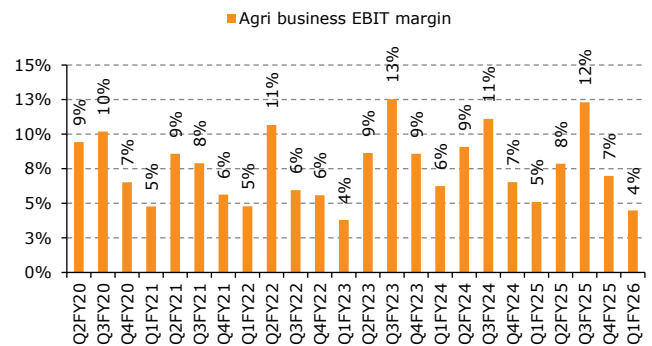
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Exhibit 14: Agri-business revenue growth trend

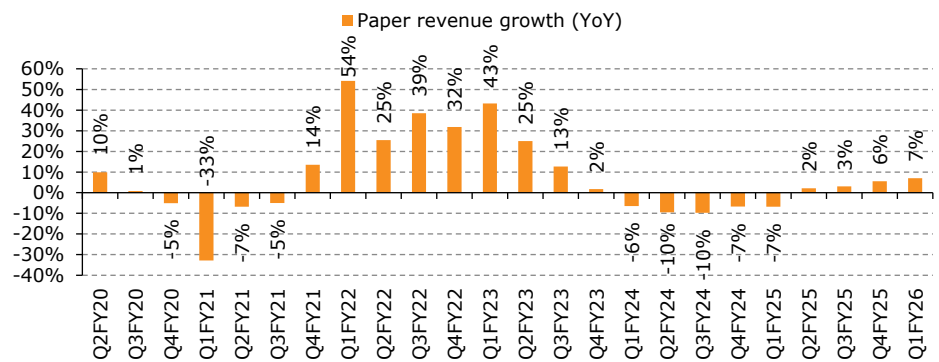
Source: Company, Emkay Research

Exhibit 15: Agri-business EBIT growth

Source: Company, Emkay Research

Exhibit 16: Agri-business EBIT margin

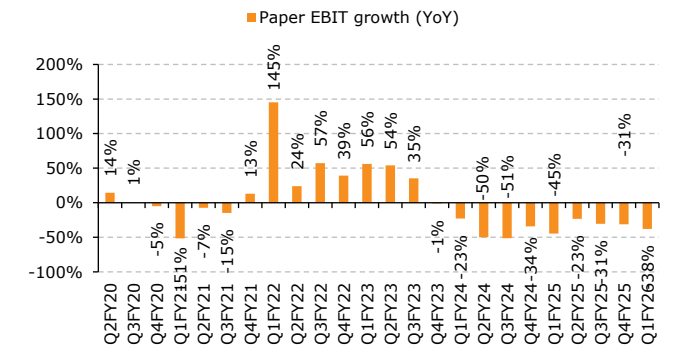
Source: Company, Emkay Research

Exhibit 17: Paper business revenue growth

Source: Company, Emkay Research

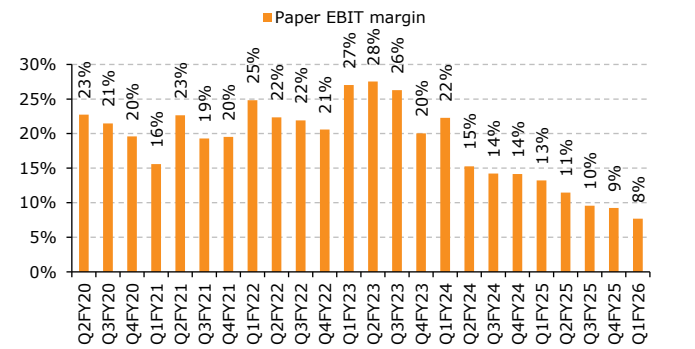
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Exhibit 18: Paper business EBIT growth



Source: Company, Emkay Research

Exhibit 19: Paper business EBIT margin



Source: Company, Emkay Research

Valuation

Exhibit 20: SOTP-based target price

Segment	Valuation methodologies	Unit (Rs bn)	Jun-27 est	Multiple (x)	Rs/share
Cigarette	PE	EPS	13.96	17.0	237
Other FMCG	EV/Sales	Sales	260,945	5.5	115
Agri	EV/Sales	Sales	294,968	2.0	47
Paper	EV/EBITDA	EBITDA	24,958	5.0	10
ITC infotech	PE	EPS	0.66	30.0	20
Net cash		Actual		1.0	31
ITC Hotel (40% stake; with 20% holding company discount)					12
Fair value					472
Target price					475

Source: Company, Emkay Research

Exhibit 21: Changes to our estimates

	New estimates			Old estimates			Changes to our estimates		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	781,478	893,571	1,003,002	783,080	893,995	1,002,008	0%	0%	0%
growth (%)	12.7%	14.3%	12.2%	13.0%	14.2%	12.1%			
EBITDA	265,823	313,548	349,480	269,092	315,146	350,419	-1%	-1%	0%
growth (%)	10.7%	18.0%	11.5%	12.0%	17.1%	11.2%			
EBITDA margin (%)	34.0%	35.1%	34.8%	39.1%	40.9%	40.9%			
Adj PAT	213,643	243,542	270,174	216,102	244,985	271,216	-1%	-1%	0%
growth (%)	9.2%	14.0%	10.9%	10.5%	13.4%	10.7%			
EPS	17.0	19.3	21.3	17.2	19.4	21.3	-1%	-1%	0%

Source: Company, Emkay Research

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Exhibit 22: Key assumptions

	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Profit and loss account									
Cigarette revenue growth	2%	-4%	15%	20%	8%	7%	8%	9%	9%
FMCG revenue growth	2%	3%	12%	20%	9%	6%	7%	9%	9%
Hotel revenue growth	9%	-66%	105%	101%	16%	-94%	10%	10%	10%
Agri revenue growth	9%	23%	29%	12%	-13%	25%	19%	20%	19%
Paper revenue growth	4%	-8%	36%	19%	-8%	1%	26%	27%	10%
Cigarette volume growth	-1%	-13%	16%	20%	3%	4%	6%	5%	5%
Earnings growth	21%	-14%	15%	23%	6%	76%	-40%	13%	10%
Cigarette PBIT growth	2%	-14%	17%	21%	6%	5%	8%	11%	10%
FMCG PBIT growth	2%	-11%	17%	22%	8%	4%	9%	13%	11%
Hotel PBIT growth	-11%	-439%	-66%	-396%	39%	21%	-19%	43%	10%
Agri PBIT growth	2%	4%	26%	29%	-6%	18%	23%	23%	23%
Paper PBIT growth	5%	-16%	55%	35%	-40%	-34%	28%	61%	18%
Gross margin	62%	56%	53%	56%	59%	54%	54%	54%	53%
A&P spends as a % of sales	2%	3%	2%	2%	2%	2%	2%	2%	2%
EBITDA margin	39%	34%	34%	36%	37%	35%	34%	35%	35%
Adj EPS (Rs/Sh)	12.42	10.59	12.22	15.02	15.98	15.63	16.98	19.26	21.26
DPS (Rs/Sh)	5.73	15.13	10.99	15.50	13.75	14.35	15.00	16.00	18.00
Balance sheet									
Avg. ROCE (%)	27%	23%	29%	34%	32%	33%	36%	40%	41%
Avg. RoE (%)	25%	21%	25%	29%	29%	29%	31%	33%	34%
Inventory days (no of)	64	76	65	59	70	79	75	75	75
Receivable days (no of)	17	17	13	13	18	21	21	21	21
Payable days (no of)	28	33	27	24	25	24	25	25	25

Source: Company, Emkay Research

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ITC: Standalone Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	654,251	693,223	781,478	893,571	1,003,002
Revenue growth (%)	(0.9)	6.0	12.7	14.3	12.2
EBITDA	244,629	240,236	265,823	313,548	349,480
EBITDA growth (%)	2.2	(1.8)	10.7	18.0	11.5
Depreciation & Amortization	16,478	14,419	14,951	16,670	16,796
EBIT	228,150	225,817	250,872	296,878	332,684
EBIT growth (%)	2.4	(1.0)	11.1	18.3	12.1
Other operating income	6,591	7,715	8,634	9,667	10,634
Other income	35,383	34,543	33,628	28,285	30,449
Financial expense	457	364	400	440	484
PBT	263,076	259,996	284,100	324,723	362,649
Extraordinary items	(76)	156,317	0	0	0
Taxes	63,622	64,370	70,457	81,181	92,476
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	199,378	351,944	213,643	243,542	270,174
PAT growth (%)	6.4	76.5	(39.3)	14.0	10.9
Adjusted PAT	199,453	195,627	213,643	243,542	270,174
Diluted EPS (Rs)	16.0	15.6	17.0	19.3	21.3
Diluted EPS growth (%)	6.4	(2.1)	8.6	13.4	10.4
DPS (Rs)	13.8	14.4	15.0	16.0	18.0
Dividend payout (%)	86.1	51.0	88.3	83.1	84.7
EBITDA margin (%)	37.4	34.7	34.0	35.1	34.8
EBIT margin (%)	34.9	32.6	32.1	33.2	33.2
Effective tax rate (%)	24.2	24.8	24.8	25.0	25.5
NOPLAT (pre-IndAS)	172,974	169,909	188,655	222,658	247,849
Shares outstanding (mn)	12,485	12,514	12,579	12,644	12,709

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	12,485	12,514	12,579	12,644	12,709
Reserves & Surplus	709,848	666,487	700,553	755,409	823,277
Net worth	715,116	673,583	707,714	762,635	830,567
Minority interests	-	-	-	-	-
Non-current liab. & prov.	20,837	25,564	27,609	29,817	32,203
Total debt	681	1,568	1,627	1,709	1,794
Total liabilities & equity	746,289	706,132	742,368	799,579	869,983
Net tangible fixed assets	250,215	194,466	243,515	254,845	266,774
Net intangible assets	0	0	0	0	0
Net ROU assets	-	-	-	-	-
Capital WIP	10,870	10,707	10,707	10,707	10,707
Goodwill	-	-	-	-	-
Investments [JV/Associates]	23,936	23,936	23,936	23,936	23,936
Cash & equivalents	385,629	367,779	359,186	396,245	436,075
Current assets (ex-cash)	195,408	237,786	244,941	266,003	296,936
Current Liab. & Prov.	126,987	133,960	145,335	157,575	169,864
NWC (ex-cash)	68,422	103,826	99,606	108,428	127,072
Total assets	746,289	706,132	742,368	799,579	869,983
Net debt	(384,948)	(366,211)	(357,559)	(394,536)	(434,281)
Capital employed	746,289	706,132	742,368	799,579	869,983
Invested capital	318,637	298,292	343,121	363,273	393,846
BVPS (Rs)	57.9	54.3	56.7	60.7	65.8
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.6)	(1.5)	(1.3)	(1.3)	(1.2)
Interest coverage (x)	576.3	716.3	711.5	739.3	750.6
RoCE (%)	37.7	37.1	40.8	43.8	45.2

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	227,693	225,453	250,472	296,438	332,200
Others (non-cash items)	(5,677)	(167,377)	0	0	0
Taxes paid	(56,829)	(58,446)	(70,457)	(81,181)	(92,476)
Change in NWC	7,374	(30,678)	6,265	(6,614)	(16,258)
Operating cash flow	161,182	167,510	201,631	225,754	240,746
Capital expenditure	(26,016)	41,493	(64,000)	(28,000)	(28,725)
Acquisition of business	0	0	0	0	0
Interest & dividend income	20,069	20,063	33,628	28,285	30,449
Investing cash flow	21,276	1,415	(30,372)	(29,715)	(29,001)
Equity raised/(repaid)	14,428	7,973	65	65	65
Debt raised/(repaid)	(127)	886	60	81	85
Payment of lease liabilities	0	(2,439)	0	0	0
Interest paid	(457)	(364)	(400)	(440)	(484)
Dividend paid (incl tax)	(196,061)	(174,967)	(179,577)	(188,687)	(202,306)
Others	(334)	1,253	0	0	0
Financing cash flow	(182,550)	(167,656)	(179,852)	(188,980)	(202,639)
Net chg in Cash	(93)	1,269	(8,593)	7,059	9,106
OCF	161,182	167,510	201,631	225,754	240,746
Adj. OCF (w/o NWC chg.)	153,809	198,188	195,366	232,367	257,004
FCFF	135,166	209,003	137,631	197,754	212,021
FCFE	154,778	228,703	170,860	225,599	241,986
OCF/EBITDA (%)	65.9	69.7	75.9	72.0	68.9
FCFE/PAT (%)	77.6	65.0	80.0	92.6	89.6
FCFF/NOPLAT (%)	78.1	123.0	73.0	88.8	85.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	26.1	14.8	24.5	21.6	19.6
EV/CE(x)	6.7	7.1	6.7	6.3	5.7
P/B (x)	7.2	7.7	7.3	6.9	6.3
EV/Sales (x)	7.4	7.0	6.2	5.4	4.9
EV/EBITDA (x)	19.7	20.0	18.1	15.4	13.8
EV/EBIT(x)	21.1	21.3	19.2	16.2	14.5
EV/IC (x)	15.1	16.1	14.0	13.3	12.2
FCFF yield (%)	2.8	4.3	2.9	4.1	4.4
FCFE yield (%)	3.0	4.4	3.3	4.3	4.6
Dividend yield (%)	3.3	3.4	3.6	3.8	4.3
DuPont-RoE split					
Net profit margin (%)	30.5	28.2	27.3	27.3	26.9
Total asset turnover (x)	0.9	1.0	1.1	1.2	1.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	28.5	27.9	30.7	32.9	33.7
DuPont-RoIC					
NOPLAT margin (%)	26.4	24.5	24.1	24.9	24.7
IC turnover (x)	2.1	2.2	2.4	2.5	2.6
RoIC (%)	55.4	55.1	58.8	63.0	65.5
Operating metrics					
Core NWC days	38.2	54.7	46.5	44.3	46.2
Total NWC days	38.2	54.7	46.5	44.3	46.2
Fixed asset turnover	1.5	1.6	1.8	1.8	1.9
Opex-to-revenue (%)	21.4	19.6	19.6	18.8	18.4

Source: Company, Emkay Research

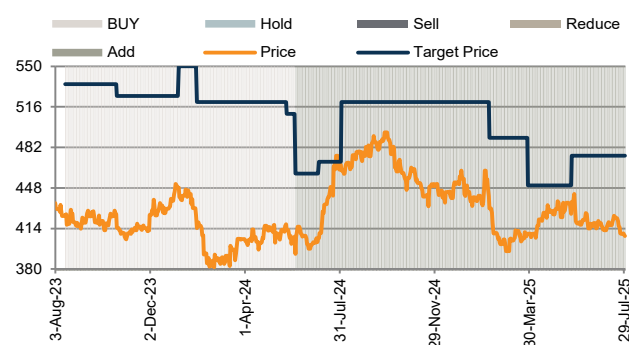
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Jun-25	416	475	Add	Nitin Gupta
24-Jun-25	414	475	Add	Nitin Gupta
09-Jun-25	423	475	Add	Nitin Gupta
23-May-25	436	475	Add	Nitin Gupta
24-Apr-25	430	450	Add	Nitin Gupta
28-Mar-25	410	450	Add	Nitin Gupta
21-Mar-25	406	490	Add	Nitin Gupta
17-Mar-25	408	490	Add	Nitin Gupta
18-Feb-25	405	490	Add	Nitin Gupta
07-Feb-25	431	490	Add	Nitin Gupta
02-Feb-25	463	520	Add	Nitin Gupta
03-Jan-25	456	520	Add	Nitin Gupta
25-Oct-24	456	520	Add	Nitin Gupta
02-Oct-24	488	520	Add	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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