

August 01, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Staples

ITC Ltd.

Mixed bag; Maintain Add

ITC Ltd. (ITC) 1QFY25 operating performance was a mixed bag with beat on topline but margins missing our estimates for the quarter. Topline growth of 7.4% was supported by strong 22.2% growth in Agri-business driven by value added agri products, leaf tobacco and wheat. Progressive scale-up of export shipments of Nicotine & Nicotine derivative products post trials should provide some further aid for the segment. Paperboards, Paper and Packaging (PPP) came lower than our estimate but green shoots of recovery in domestic demand are visible ahead of the festive season. Cigarette and FMCG-Others business saw minor deviation growing at 6.1% (we believe with a ~2% volume growth) and 6.3% YoY, respectively. Stability in taxes and recovery in rural markets should support growth while it continues to face pressure on margins in the very near-term from commodities in key business segments. Based on target multiple of ~26x (3yr/5yr avg fwd. multiple ~22x/20x) on Sep'26E EPS, we arrive at a revised target price (TP) of Rs545 (Rs500 earlier). Maintain ADD.

Result Highlights (Standalone)

- 1QFY25 headline performance: ITC's 1QFY25 standalone revenue (adjusted for excise duty) was up 7.4% YoY to Rs170bn (vs est. Rs165bn). EBITDA was up by just 0.7% YoY to Rs63bn (vs est. Rs64bn). APAT was flattish YoY at Rs49.2bn (vs est. Rs50.7bn).
- Gross margin came in 220bps below our estimate at 57.7% (-180bps YoY and -220bps QoQ). While EBITDA margin was down 250bps YoY at 37% (vs est. 39%).
- Cigarette revenue grew by 6.1% YoY to Rs79.2bn (1.8% below our est.), up ~7.8% on a 5-year CAGR basis. Net Segment Revenue (Net of Excise Duty/NCCD on Sales) up by 7%. We believe cigarette volume growth (calculated) stood at ~2% (vs our est. of 3% growth). Cig. business EBIT grew by 6.5% YoY with EBIT margins up by 30bps YoY to 62.6% (+50bps QoQ).
- FMCG-Others revenue grew by 6.3% YoY to Rs54.9bn (1.6% below our est.), up ~12.4% on a 5-year CAGR basis. Segment EBITDA margin stood at 11.3% (+25bps YoY); FMCG-Others EBIT margins was up 30bps YoY to 8.7%.
- Agri business was up 22.2% YoY to Rs69.7bn (28.7% above our est.) driven by value added agri products, leaf tobacco and wheat. Segment EBIT margin down 110bps YoY to 5.1%.
- Paperboards, Paper & Packaging (PPP) revenue was down 6.8% YoY (6.8% below our est.). Segment EBIT margin sharply down 910bps YoY to 13.2%.
- Hotels business saw a growth of 10.9% YoY (2.7% below our est.). Segment EBIT margin stood at 22% (+10bps YoY).

View & Valuation

There is 2.8%/1.7% downwards revision in our FY25E/FY26E earnings. We build a relatively subdued 9.6% EPS CAGR led by 10.3% revenue CAGR over FY24-FY26. Stability in taxes and recovery in rural markets should support growth in the near-term in its key businesses. PPP business which has been facing near term pressure from multiple issues but is now seeing green shoots and base becomes low. Agri business should continue to see better growth going forward as export ban already into the base along with progressive scale-up of export shipments of Nicotine & Nicotine derivative products. Return ratios are expected to improve further led by hotel business demerger and no major capex in near-term. ITC is currently trading at ~28x/25x FY25E/FY26E EPS. Based on target multiple of ~26x (3yr/5yr avg fwd. multiple ~22x/20x) on Sep'26E EPS, we arrive at a revised TP of Rs545 (Rs500 earlier). Maintain ADD.

Reco	: ADD
CMP	: Rs 494
Target Price	: Rs 545
Potential Return	: +10.4%

Stock data (as on August 01, 2024)

Nifty	25,011
52 Week h/l (Rs)	511 / 399
Market cap (Rs/USD mn)	6193293 / 73992
Outstanding Shares (mn)	12,503
6m Avg t/o (Rs mn):	6,915
Div yield (%):	2.7
Bloomberg code:	ITC IN
NSE code:	ITC

Stock performance



Shareholding pattern (As of Jun'24 end)

Promoter	0.0%
FII+DII	84.5%
Others	15.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	545	500

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	17.7	19.7
EPS (Old)	18.2	20.0
% change	-2.8	-1.7

Financial Summary (Standalone)

(Rs mn)	FY24	FY25E	FY26E
Revenue	654,408	725,791	794,063
YoY Growth (%)	-0.9	10.9	9.4
EBIDTA	245,088	273,734	305,952
Margins (%)	37.5	37.7	38.5
PAT	204,295	221,019	245,501
EPS	16.4	17.7	19.7
YoY Growth (%)	8.4	8.2	11.1
ROCE (%)	36.6	38.3	41.4
ROE (%)	29.2	29.9	32.0
P/E (x)	30.2	27.9	25.1
EV/EBITDA (x)	23.4	20.7	18.4

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	170,001	165,014	171,580	3.0	(0.9)
EBITDA	62,955	64,311	64,974	(2.1)	(3.1)
EBITDA Margin (%)	37.0	39.0	37.9	(1.9)	(0.8)
Adjusted PAT	49,205	50,656	51,602	(2.9)	(4.6)

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rsmn)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	158,282	165,793	170,001	7.4	2.5
COGS	64,155	66,529	71,885	12.0	8.0
Gross margin %	59.5	59.9	57.7	-1.8	-2.2
Employee costs	9,038	9,694	9,978	10.4	2.9
% of sales	5.7	5.8	5.9	0.2	0.0
Other expenses	22,588	27,943	25,184	11.5	-9.9
% of sales	14.3	16.9	14.8	0.5	-2.0
EBITDA	62,501	61,626	62,955	0.7	2.2
EBITDA margin %	39.5	37.2	37.0	-2.5	-0.1
Depreciation	4,025	4,154	4,309	7.0	3.7
EBIT	58,476	57,473	58,646	0.3	2.0
EBIT margin %	36.9	34.7	34.5	-2.4	-0.2
Interest expense	107	121	111	3.9	-8.1
Other income	7,087	7,986	7,013	-1.1	-12.2
PBT	65,456	65,317	65,517	0.1	0.3
Tax	16,429	15,115	16,343	-0.5	8.1
Effective tax rate %	25.1	23.1	24.9	-0.2	1.8
PAT	49,027	50,202	49,175	0.3	-2.0
Adj PAT	49,027	50,223	49,205	0.4	-2.0
PAT margin %	31.0	30.3	28.9	-2.0	-1.3
EPS	3.9	4.0	4.0	0.4	-2.0

Source: Company, YES Sec

Exhibit 3: Quarterly snapshot (Standalone)

Particulars (Rsmn)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue (Rsmn)					
Cigarettes	74,653	79,248	79,181	6.1	(0.1)
FMCG - Others	51,660	53,002	54,910	6.3	3.6
Hotels	6,002	8,979	6,656	10.9	(25.9)
Agri business	57,054	31,007	69,733	22.2	124.9
Paper and packaging	21,208	20,729	19,767	(6.8)	(4.6)
Revenue mix (%)					
Cigarettes	35.5	41.1	34.4	(1.1)	(6.7)
FMCG - Others	24.5	27.5	23.8	(0.7)	(3.6)
Hotels	2.9	4.7	2.9	0.0	(1.8)
Agri business	27.1	16.1	30.3	3.2	14.2
Paper and packaging	10.1	10.7	8.6	(1.5)	(2.2)
EBIT (Rsmn)					
Cigarettes	46,561	49,233	49,596	6.5	0.7
FMCG - Others	4,309	4,773	4,759	10.4	(0.3)
Hotels	1,312	2,671	1,464	11.5	(45.2)

Agri business	3,560	2,026	3,558	(0.0)	75.7
Paper and packaging	4,725	2,934	2,613	(44.7)	(10.9)
EBIT mix (%)					
Cigarettes	77.0	79.9	80.0	3.0	0.1
FMCG - Others	7.1	7.7	7.7	0.6	(0.1)
Hotels	2.2	4.3	2.4	0.2	(2.0)
Agri business	5.9	3.3	5.7	(0.1)	2.5
Paper and packaging	7.8	4.8	4.2	(3.6)	(0.5)
EBIT margin (%)					
Cigarettes	62.4	62.1	62.6	0.3	0.5
FMCG - Others	8.3	9.0	8.7	0.3	(0.3)
Hotels	21.9	29.7	22.0	0.1	(7.8)
Agri business	6.2	6.5	5.1	(1.1)	(1.4)
Paper and packaging	22.3	14.2	13.2	(9.1)	(0.9)

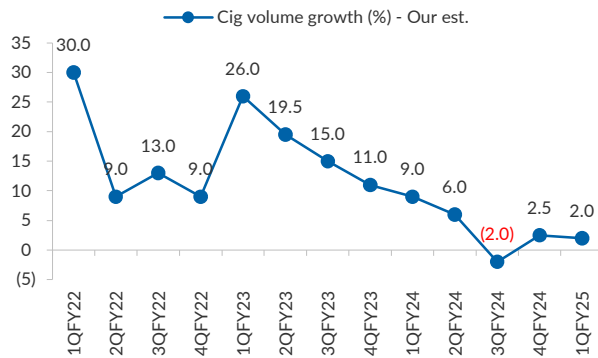
Source: Company, YES Sec

Key Excerpts from ITC Q1FY25 media statement and investor presentation

- Demand outlook:** Moderating inflation, improving agri terms of trade, expectation of normal monsoons and the Government's thrust on public infrastructure & the rural sector augur well for a pick-up in consumption demand, building on the green shoots of recovery that are visible in rural markets.
- FMCG Cigarettes:** The Business continues to counter illicit trade and reinforce market standing by fortifying the product portfolio through innovation, democratizing premiumization across segments backed by superior on ground execution. **Stability in taxes on cigarettes**, backed by deterrent actions by enforcement agencies, **enables volume recovery** for the legal cigarette industry from illicit trade leading to higher demand for Indian tobaccos and bolstering revenue to the exchequer from the tobacco sector. Sharp escalation in costs of leaf tobacco and certain other inputs were largely mitigated through improved mix, strategic cost management and calibrated pricing.
- FMCG Others:** Extreme heatwave adversely impacted categories with higher salience of discretionary/out of home consumption. Emerging channels (viz. Modern Trade, e-Commerce, Quick Commerce) witnessed robust growth on the back of sharp execution of channel-specific business plans, collaborations, format-based assortments, and category-specific sell-out strategies. Competitive intensity remained high in certain categories such as Biscuits, Snacks, Noodles, Popular Soaps, Education and Stationery Products, including from local/regional players. While commodity prices were largely stable during the quarter compared to the base period, certain items such as **sugar, potato, choco cream and edible oil** witnessed sequential uptick in prices.
- Agri Business:** In line with the overall strategy of scaling-up the value-added agri portfolio, the Business delivered strong growth in exports of Spices and Coffee. The Business continues to leverage the multidimensional capabilities of its state-of-the-art value-added Spices processing facility in Guntur to scale up exports. Agility in operations, strong customer relationships and new business development enabled robust growth in leaf tobacco exports. Steep escalation in green leaf procurement prices weighed on margins which was partially mitigated by strategic cost management initiatives. The state-of-the-art facility to manufacture and export Nicotine & Nicotine derivative products conforming to US and EU pharmacopoeia standards, set up by the Company's wholly owned subsidiary, ITC IndiVision Limited, which was commissioned in the previous quarter, has recently received EU REACH approvals. Customer trials are underway; export shipments are expected to be scaled up progressively.

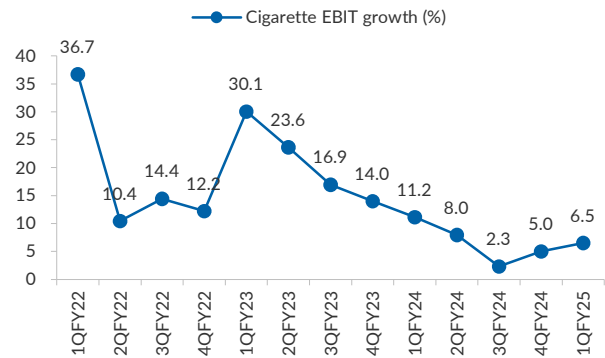
- **Paperboards, Paper & Packaging:** The performance in the Paperboards, Paper & Packaging Segment reflects the impact of low-priced Chinese supplies in global markets including India, muted domestic demand, unprecedented increase in domestic wood costs. Subdued realizations, surge in domestic wood prices and ocean freight continues to impact margins. Green shoots of recovery in domestic demand were visible ahead of the festive season; Value Added Paperboard (VAP) grades witnessed sequential improvement in net realization rates.
- **Hotels:** The company witnessed strong growth across properties, despite fewer wedding dates and extreme heatwave/elections impacting domestic travel & out-of-home dining. The Company's first international property ITC Ratnadipa, opened in April 2024 at Colombo, Sri Lanka. Currently, 225 rooms are operational with occupancy witnessing steady ramp up.
- **Distribution:** The Company's digitally powered eB2B platform, UNNATI app (now also available in several vernacular languages) covers nearly 7 lakh outlets, facilitating sharp and direct engagement with retailers, superior analytics, personalized recommendations of hyperlocal baskets based on consumer purchase insights, and deeper brand engagement.
- **Hotel demerger update:** Shareholders approved the Scheme of Arrangement for demerger at the NCLT convened meeting held on June 6, 2024. Petition for sanction of Scheme has been filed with NCLT on July 22, 2024.

Exhibit 4: We believe cigarette volumes to have grown by ~2% YoY in 1QFY25



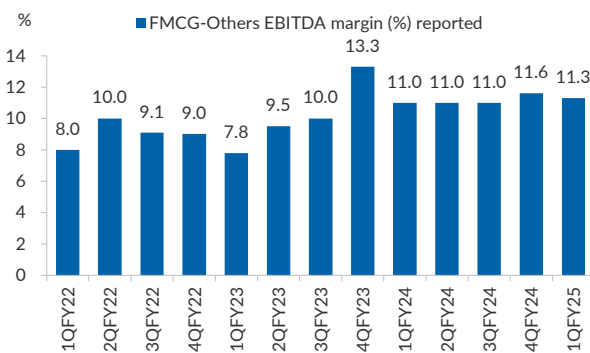
Source: Company, YES Sec

Exhibit 5: Cigarette EBIT grew ~6.5% YoY (segment EBIT margin up 30bps/50bps YoY/QoQ)



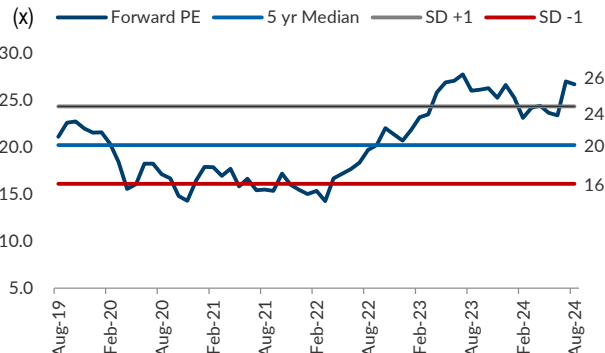
Source: Company, YES Sec

Exhibit 6: FMCG-Others EBITDA margin stood at 11.3% in 1QFY25(+30 bps YoY)



Source: Company, YES Sec; Note: 4QFY23 includes certain fiscal incentives relating to earlier periods

Exhibit 7: Currently trading at ~27x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	12,323	12,428	12,485	12,485	12,485
Reserves	601,672	663,510	709,848	742,950	766,225
Net worth	613,996	675,938	722,333	755,435	778,710
Total debt	45	33	18	18	18
Lease liability	3,059	3,201	3,087	2,933	2,786
Deferred tax liability	16,671	16,211	20,837	22,837	24,837
Total liabilities	633,771	695,383	746,274	781,222	806,350
Gross block	384,914	411,077	442,920	457,920	472,920
Depreciation	163,239	179,867	196,345	213,746	231,717
Net block	221,674	231,211	246,575	244,174	241,203
Capital work-in-progress	24,423	16,815	10,780	10,780	10,780
Other long-term assets	10,770	10,682	10,948	10,948	10,948
Investments	272,823	327,206	347,388	392,490	425,681
Inventories	99,978	105,939	126,315	117,628	116,745
Debtors	19,525	23,213	33,115	37,489	41,029
Cash	38,779	38,313	62,176	65,810	68,997
Loans & advances	51,001	55,358	24,637	25,130	25,632
Other current assets	11,952	13,881	11,342	11,909	12,504
Total current assets	221,234	236,704	257,585	257,966	264,906
Creditors	42,234	43,513	44,896	48,779	52,176
Other current liabilities & provisions	74,920	83,721	82,106	86,356	94,992
Total current liabilities	117,154	127,234	127,001	135,136	147,168
Net current assets	104,081	109,470	130,583	122,830	117,738
Total assets	633,771	695,383	746,274	781,222	806,350

Source: Company, YES Sec

Exhibit 9: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	563,413	660,433	654,408	725,791	794,063
% Growth	23.9	17.2	-0.9	10.9	9.4
COGS	270,469	298,219	280,288	305,054	325,563
Other expenses	103,421	122,451	129,032	147,003	162,549
Total expenses	373,890	420,670	409,320	452,057	488,112
EBITDA	189,522	239,762	245,088	273,734	305,952
% growth	22.0	26.5	2.2	11.7	11.8
EBITDA margin (%)	33.6	36.3	37.5	37.7	38.5
Other income	25,900	24,376	35,383	35,998	40,848
Interest costs	605	736	759	750	750
Depreciation	16,522	16,627	16,478	17,401	17,971
Profit before tax	198,295	246,775	263,233	291,581	328,078
Exceptional items	0	550	-76	0	0
Tax	47,717	59,792	58,939	70,563	82,577
PAT	150,578	187,533	204,219	221,019	245,501
Adj PAT	150,578	186,983	204,295	221,019	245,501
Adj PAT margin (%)	25.6	27.3	29.6	29.0	29.4
% Growth	15.5	24.2	9.3	8.2	11.1

Source: Company, YES Sec

Note: Full year COGS also includes contract processing charges (included in other op. exps. in quarterly)

Exhibit 10: Cash flow statement

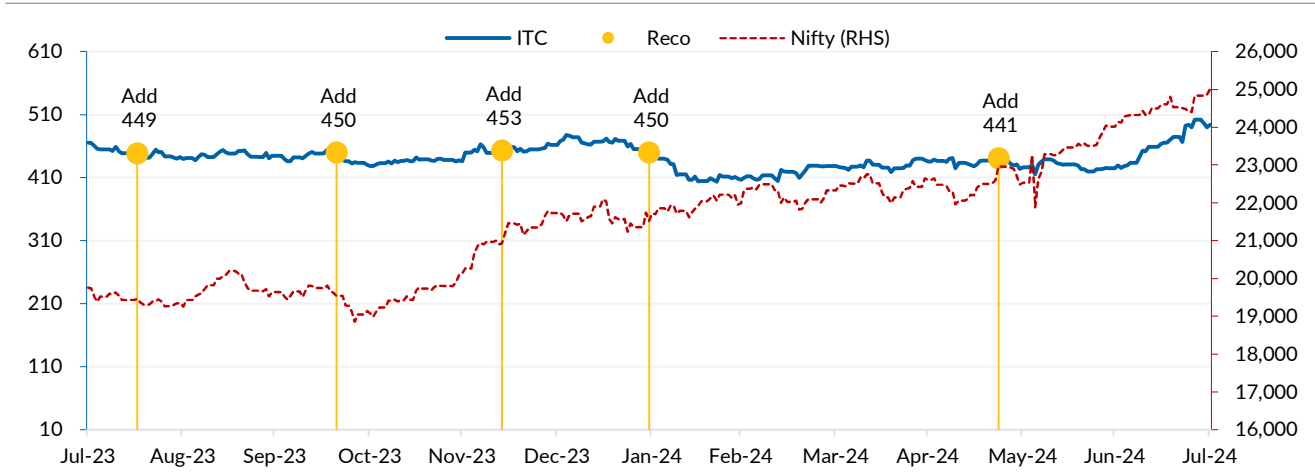
Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	198,295	247,504	263,158	291,581	328,078
Depreciation	16,522	16,627	16,478	17,401	17,971
Other income	(13,853)	(8,640)	(15,580)	(35,998)	(40,848)
(Inc./dec. in working capital	1,841	(4,441)	(30,578)	8,196	741
Other items	(54,727)	(71,933)	(72,295)	(69,813)	(81,827)
Cash flow from operations	148,078	179,117	161,182	211,368	224,115
Capital expenditure (-)	(16,748)	(18,095)	(25,464)	(15,000)	(15,000)
Net cash after capex	131,330	161,022	135,719	196,368	209,115
Inc./(dec.) in other inv. & assets	805	(34,185)	70,696	(31,042)	(16,949)
Cash flow from investment activities	(15,943)	(52,280)	45,232	(46,042)	(31,949)
Issue of share capital (incl premium)	2,918	24,774	14,428	10,000	10,000
Dividends paid (-)	(135,471)	(151,504)	(196,061)	(171,630)	(198,917)
Other items	(818)	(574)	(918)	(62)	(62)
Cash from financial activities	(133,370)	(127,304)	(182,550)	(161,692)	(188,979)
Opening cash balance	40,015	38,779	38,313	62,176	65,810
Closing cash balance	38,779	38,313	62,176	65,810	68,997
Change in cash balance	(1,236)	(467)	23,864	3,634	3,187

Exhibit 11: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	12.2	15.1	16.4	17.7	19.7
Book value	49.8	54.4	57.9	60.5	62.4
DPS	11.5	15.5	13.7	15.9	18.7
Valuation (x)					
EV/sales	10.5	8.8	8.8	7.9	7.2
EV/EBITDA	30.7	24.1	23.4	20.7	18.4
P/E	40.4	32.8	30.2	27.9	25.1
P/BV	9.9	9.1	8.5	8.2	7.9
Return ratios (%)					
RoCE*	32.0	37.2	36.6	38.3	41.4
RoE	25.0	29.0	29.2	29.9	32.0
RoIC*	61.2	73.1	71.6	80.3	94.0
Profitability ratios (%)					
Gross margin	52.0	54.8	57.2	58.0	59.0
EBITDA margin	33.6	36.3	37.5	37.7	38.5
EBIT margin	30.7	33.8	34.9	35.3	36.3
PAT margin	25.6	27.3	29.6	29.0	29.4
Liquidity ratios (%)					
Current ratio	1.9	1.9	2.0	1.9	1.8
Quick ratio	1.0	1.0	1.0	1.0	1.0
Turnover ratios					
Total asset turnover ratio (x)	0.9	0.9	0.9	0.9	1.0
Fixed asset turnover ratio (x)	2.5	2.9	2.7	3.0	3.3
Inventory days	131	126	151	146	131
Debtors days	13	12	16	18	18
Creditor days	56	52	58	56	57

Source: Company, YES Sec; * ROCE & ROIC are on pre-tax basis

Recommendation Tracker



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Analyst signature

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