

January 29, 2024

RESULT REPORT Q3 FY24 | Sector: Consumer Staples

ITC Ltd.

Operating performance below estimates

ITC Ltd. (ITC) 3QFY24 operating performance was below estimates while PAT was aided by higher other income and tax credit. Cigarette volumes were subdued largely due to base effect. FMCG-Others grew 7.6%, impacted by subdued demand, with EBITDA margin stable at 11% for three consecutive quarters. Trade restrictions on agri commodities continue to impact ITC's Agri business. Segment likely to see some benefit starting 4QFY24 with expected commencement of export shipments of Nicotine and Nicotine derivative products. Paperboards, Paper and Packaging (PPP) segment continue to remain impacted by low priced Chinese supplies in global markets, muted domestic demand, surge in wood cost and high base effect. Based on unchanged target multiple of ~26x (3yr/5yr avg fwd. multiple ~20x), we arrive at a target price (TP) of Rs500. Maintain ADD.

Result Highlights (Standalone)

- 3QFY24 headline performance:** Standalone revenue (adjusted for excise duty) was up just 1.6% YoY to Rs164.8bn (vs est. Rs174.8bn). EBITDA was down 3.2% YoY to Rs60.2bn (vs est. Rs67.3bn). PAT was up 10.9% YoY to Rs55.8bn (vs est. Rs53.9bn). Excluding tax credit of ~Rs4.7bn, PAT growth stood at ~1.6% (5.2% below our APAT estimate).
- Cigarette** revenue grew by 3.6% YoY to Rs75.5bn (5.4% below our est.), up ~9.2% on a 4-year CAGR basis. Net Segment Revenue (Net of Excise Duty/NCCD on Sales) up by 2.3%. We believe cigarette volume growth (calculated) to be flattish to slightly negative (vs our est. of 3% growth). Differentiated variants and premium segment continue to perform well. Cig. business EBIT grew by 2.3% YoY with EBIT margins down by 80bps YoY to 62.6% (+20bps QoQ).
- FMCG-Others** revenue grew by 7.6% YoY to Rs52bn (1.7% below our est.), up ~12% on a 4-year CAGR basis. Segment EBITDA margin stood at 11% (+100bps YoY but flat QoQ). EBIT margin was up 110bps YoY to 8.3% (flat QoQ).
- Paperboards, Paper & Packaging (PPP)** revenue was down 9.7% YoY (7% below our est.). Segment EBIT margin down sharply 1210bps YoY to 14.2%.
- Agri business** was down 2.2% YoY to Rs30.5bn (15% below our est.). Segment EBIT margin down 140bps YoY to 11.1%.
- Hotels** business saw a growth of 18.2% YoY (2.8% above our est.). Segment EBIT margin stood at 27.3% (+680bps YoY).
- Gross margin** came in 60bps below our estimate at 58.4% (-40bps YoY but up 110bps QoQ). EBITDA margin was down 180bps YoY at 36.5% (vs our est. 38.5%).
- 9MFY24:** Revenue down by 1.6% YoY while EBITDA and APAT are up by 3.3% and 12.7% YoY, respectively. Gross margin is up 290bps YoY to 58.4% while EBITDA margin is up 180bps YoY to 37.5%.
- Dividend:** Board of Directors has declared an Interim Dividend of Rs6.25.

View & Valuation

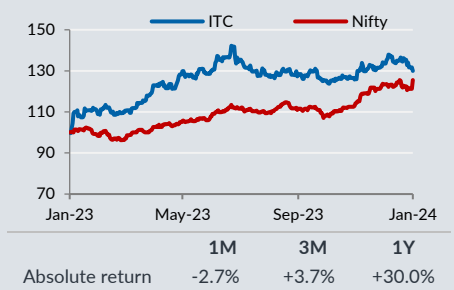
There is no major change in our FY24E/FY25E/FY26E EPS. Some of the factors which supported growth in FY22/23 have now normalized. Additionally, PPP business has been facing near term pressure from multiple issues but looks to have bottomed-out. On the other hand, Agri business should see growth going forward as export ban comes into base along with support from export shipments of Nicotine and Nicotine derivative products. Return ratios improved in FY23 and are expected to improve further led by hotel business demerger and no major capex in near term. We build a relatively subdued ~10% EPS CAGR led by 10.6% revenue CAGR over FY24E-FY26E. The stock is currently trading at ~27x/25x/23x FY24E/FY25E/FY26E EPS. Based on target multiple of ~26x (3yr/5yr avg fwd. multiple ~20x), we arrive at a revised TP of Rs500 (Rs505 earlier), thus maintain our ADD rating.

Reco	: ADD
CMP	: Rs 450
Target Price	: Rs 500
Potential Return	: +11.2%

Stock data (as on January 29, 2024)

Nifty	22,097
52 Week h/l (Rs)	500 / 327
Market cap (Rs/USD mn)	5686109 / 68660
Outstanding Shares (mn)	12,479
6m Avg t/o (Rs mn):	4,790
Div yield (%):	3.3
Bloomberg code:	ITC IN
NSE code:	ITC

Stock performance



Shareholding pattern (As of September'23 end)

Promoter	0.0%
FII+DII	85.3%
Others	14.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	500	505

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	16.5	18.2	19.9
EPS (Old)	16.5	18.6	20.2
% change	-0.1	-2.3	-1.4

Financial Summary (Standalone)

(Rs mn)	FY24E	FY25E	FY26E
Revenue	655,233	741,635	801,528
YoY Growth (%)	-0.8	13.2	8.1
EBITDA	245,597	284,535	310,981
Margins (%)	37.5	38.4	38.8
PAT	205,297	225,911	246,906
EPS	16.5	18.2	19.9
YoY Growth (%)	9.5	10.0	9.3
ROCE (%)	37.7	41.4	44.1
ROE (%)	29.8	31.8	33.8
P/E (x)	27.2	24.7	22.6
EV/EBITDA (x)	21.1	18.2	16.5

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	164,833	174,800	171,742	(5.7)	(4.0)
EBITDA	60,243	67,298	64,508	(10.5)	(6.6)
EBITDA Margin (%)	36.5	38.5	37.6	(2.0)	(1.0)
Adjusted PAT	55,776	53,910	51,988	3.5	7.3

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rsmn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Revenue	162,257	165,501	164,833	1.6	-0.4	496,453	488,615	-1.6
COGS	66,712	70,642	68,494	2.7	-3.0	220,860	203,291	-8.0
Gross margin %	58.9	57.3	58.4	-0.4	1.1	55.5	58.4	2.9
Employee costs	8,770	9,092	9,498	8.3	4.5	26,755	27,628	3.3
% of sales	5.4	5.5	5.8	0.4	0.3	5.4	5.7	0.3
Other expenses	24,543	25,350	26,598	8.4	4.9	71,487	74,536	4.3
% of sales	15.1	15.3	16.1	1.0	0.8	14.4	15.3	0.9
EBITDA	62,232	60,417	60,243	-3.2	-0.3	177,351	183,160	3.3
EBITDA margin %	38.4	36.5	36.5	-1.8	0.0	35.7	37.5	1.8
Depreciation	4,072	4,132	4,168	2.3	0.9	12,408	12,325	-0.7
EBIT	58,160	56,284	56,075	-3.6	-0.4	164,943	170,835	3.6
EBIT margin %	35.8	34.0	34.0	-1.8	0.0	33.2	35.0	1.7
Interest expense	102	105	124	21.6	17.8	300	336	12.1
Other income	8,717	8,956	11,353	30.2	26.8	16,913	27,397	62.0
PBT	66,775	65,135	67,250	0.7	3.2	181,556	197,841	9.0
Tax	16,465	15,865	11,529	-30.0	-27.3	44,892	43,823	-2.4
Effective tax rate %	24.7	24.4	17.1	-7.5	-7.2	24.7	22.2	-2.6
PAT	50,310	49,270	55,721	10.8	13.1	136,665	154,018	12.7
Adj PAT	50,310	49,270	55,776	10.9	13.2	136,665	154,073	12.7
PAT margin %	31.0	29.8	33.8	2.8	4.1	27.5	31.5	4.0
EPS	4.0	4.0	4.5	10.9	13.2	11.0	12.4	12.7

Source: Company, YES Sec

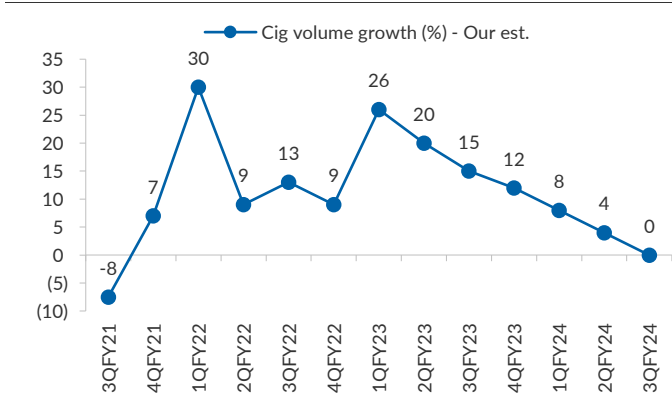
Exhibit 3: Quarterly snapshot (Standalone)

Particulars (Rsmn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Revenue (Rsmn)								
Cigarettes	72,882	76,577	75,488	3.6	(1.4)	208,510	226,718	8.7
FMCG - Others	48,414	52,916	52,091	7.6	(1.6)	141,776	156,667	10.5
Hotels	7,124	6,494	8,420	18.2	29.7	18,033	20,916	16.0
Agri business	31,238	39,310	30,547	(2.2)	(22.3)	145,937	126,911	(13.0)
Paper and packaging	23,055	20,699	20,809	(9.7)	0.5	68,603	62,716	(8.6)
Revenue mix (%)								
Cigarettes	39.9	39.1	40.3	0.4	1.2	35.8	38.2	2.4
FMCG - Others	26.5	27.0	27.8	1.3	0.8	24.3	26.4	2.1
Hotels	3.9	3.3	4.5	0.6	1.2	3.1	3.5	0.4
Agri business	17.1	20.1	16.3	(0.8)	(3.8)	25.0	21.4	(3.7)
Paper and packaging	12.6	10.6	11.1	(1.5)	0.5	11.8	10.6	(1.2)
EBIT (Rsmn)								
Cigarettes	46,197	47,817	47,281	2.3	(1.1)	132,380	141,659	7.0
FMCG - Others	3,481	4,386	4,318	24.1	(1.5)	8,726	13,013	49.1
Hotels	1,462	1,258	2,297	-	82.5	3,423	4,867	-
Agri business	3,915	3,567	3,393	(13.3)	(4.9)	10,207	10,519	3.1

Paper and packaging	6,062	3,158	2,960	(51.2)	(6.3)	18,490	10,842	(41.4)
EBIT mix (%)								
Cigarettes	75.6	79.4	78.5	2.9	(1.0)	76.4	78.3	1.9
FMCG - Others	5.7	7.3	7.2	1.5	(0.1)	5.0	7.2	2.2
Hotels	2.4	2.1	3.8	1.4	1.7	2.0	2.7	0.7
Agri business	6.4	5.9	5.6	(0.8)	(0.3)	5.9	5.8	(0.1)
Paper and packaging	9.9	5.2	4.9	(5.0)	(0.3)	10.7	6.0	(4.7)
EBIT margin (%)								
Cigarettes	63.4	62.4	62.6	(0.8)	0.2	63.5	62.5	(1.0)
FMCG - Others	7.2	8.3	8.3	1.1	0.0	6.2	8.3	2.2
Hotels	20.5	19.4	27.3	6.8	7.9	19.0	23.3	4.3
Agri business	12.5	9.1	11.1	(1.4)	2.0	7.0	8.3	1.3
Paper and packaging	26.3	15.3	14.2	(12.1)	(1.0)	27.0	17.3	(9.7)

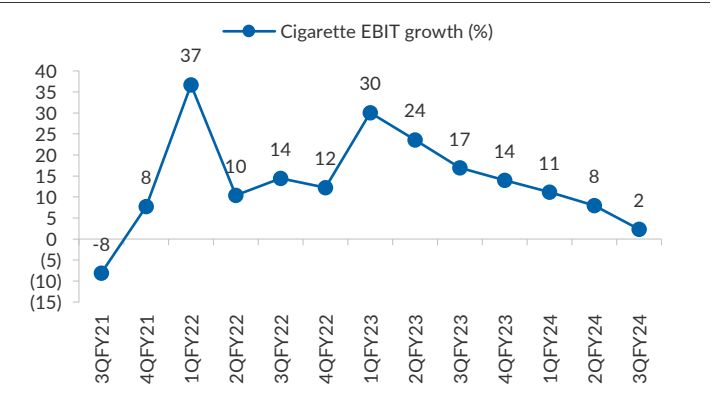
Source: Company, YES Sec

Exhibit 4: We believe cigarette volumes to have been flattish to slightly negative in 3QFY24



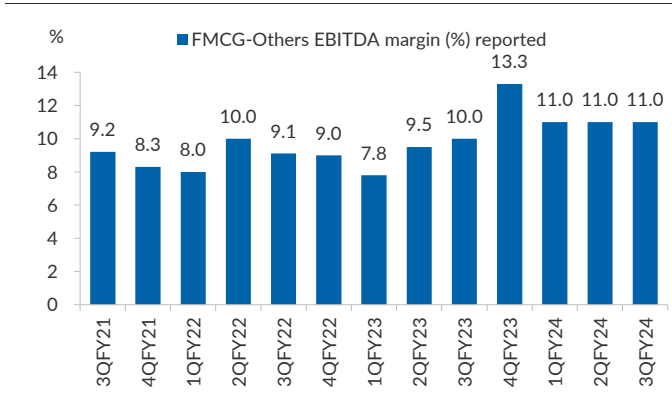
Source: Company, YES Sec

Exhibit 5: Cigarette EBIT grew ~2% YoY (segment EBIT margin down 80bps YoY)



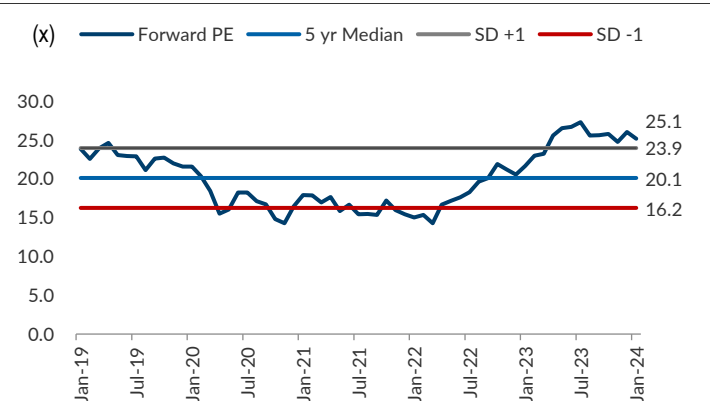
Source: Company, YES Sec

Exhibit 6: FMCG-Others EBITDA margin stood at 11% for third consecutive quarter (+100 bps YoY)



Source: Company, YES Sec

Exhibit 7: Currently trading at ~25x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	12,323	12,428	12,428	12,428	12,428
Reserves	601,672	663,510	687,987	709,801	728,146
Net worth	613,996	675,938	700,415	722,229	740,574
Total debt	45	33	33	33	33
Lease liability	3,059	3,201	3,041	2,889	2,745
Deferred tax liability	16,671	16,211	16,211	16,211	16,211
Total liabilities	633,771	695,383	719,700	741,362	759,563
Gross block	384,914	411,077	429,077	444,077	459,077
Depreciation	163,239	179,867	196,386	214,149	232,512
Net block	221,674	231,211	232,691	229,928	226,565
Capital work-in-progress	24,423	16,815	16,815	16,815	16,815
Other long-term assets	10,770	10,682	10,682	10,682	10,682
Investments	272,823	327,206	348,744	374,028	395,821
Inventories	99,978	105,939	101,765	109,240	114,868
Debtors	19,525	23,213	23,423	26,540	28,691
Cash	38,779	38,313	47,266	46,959	50,043
Loans & advances	51,001	55,358	56,465	57,595	58,747
Other current assets	11,952	13,881	14,575	15,304	16,069
Total current assets	221,234	236,704	243,494	255,637	268,418
Creditors	42,234	43,513	40,999	45,083	48,284
Other current liabilities & provisions	74,920	83,721	91,727	100,645	110,454
Total current liabilities	117,154	127,234	132,726	145,727	158,737
Net current assets	104,081	109,470	110,769	109,909	109,680
Total assets	633,771	695,383	719,700	741,362	759,563

Source: Company, YES Sec

Exhibit 9: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	563,413	660,433	655,233	741,635	801,528
% Growth	23.9	17.2	-0.8	13.2	8.1
COGS	270,469	298,219	280,146	307,418	328,364
Other expenses	103,421	122,451	129,490	149,681	162,182
Total expenses	373,890	420,670	409,636	457,100	490,546
EBITDA	189,522	239,762	245,597	284,535	310,981
% growth	22.0	26.5	2.4	15.9	9.3
EBITDA margin (%)	33.6	36.3	37.5	38.4	38.8
Other income	25,900	24,376	37,425	35,974	38,243
Interest costs	605	736	791	846	906
Depreciation	16,522	16,627	16,519	17,763	18,363
Profit before tax	198,295	246,775	265,712	301,899	329,956
Exceptional items	0	550	0	0	0
Tax	47,717	59,792	60,415	75,988	83,050
PAT	150,578	187,533	205,297	225,911	246,906
Adj PAT	150,578	186,983	205,297	225,911	246,906
Adj PAT margin (%)	25.6	27.3	29.6	29.1	29.4
% Growth	15.5	24.2	9.8	10.0	9.3

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	FY24E	FY25E	FY26E
PBT	198,295	247,504	265,712	301,899	329,956
Depreciation	16,522	16,627	16,519	17,763	18,363
Other income	(13,853)	(8,640)	(37,425)	(35,974)	(38,243)
(Inc.)/dec. in working capital	1,841	(4,441)	1,451	(6,507)	(4,579)
Other items	(54,727)	(71,933)	(59,624)	(75,142)	(82,144)
Cash flow from operations	148,078	179,117	186,633	202,040	223,353
Capital expenditure (-)	(16,748)	(18,095)	(18,000)	(15,000)	(15,000)
Net cash after capex	131,330	161,022	168,633	187,040	208,353
Inc./dec. in other inv. & assets	805	(34,185)	28,308	(5,034)	381
Cash flow from investment activities	(15,943)	(52,280)	10,308	(20,034)	(14,619)
Issue of share capital (incl premium)	2,918	24,774	5,000	5,000	5,000
Dividends paid (-)	(135,471)	(151,504)	(192,550)	(186,820)	(210,097)
Other items	(818)	(574)	(437)	(493)	(552)
Cash from financial activities	(133,370)	(127,304)	(187,987)	(182,313)	(205,649)
Opening cash balance	40,015	38,779	38,313	47,266	46,959
Closing cash balance	38,779	38,313	47,266	46,959	50,043
Change in cash balance	(1,236)	(467)	8,954	(308)	3,085

Exhibit 11: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	12.2	15.1	16.5	18.2	19.9
Book value	49.8	54.4	56.4	58.1	59.6
DPS	11.5	15.5	15.0	16.9	18.9
Valuation (x)					
EV/sales	9.5	8.0	8.0	7.0	6.5
EV/EBITDA	27.9	21.8	21.1	18.2	16.5
P/E	36.8	29.9	27.2	24.7	22.6
P/BV	9.0	8.3	8.0	7.7	7.5
Return ratios (%)					
RoCE*	32.0	37.2	37.7	41.4	44.1
RoE	25.0	29.0	29.8	31.8	33.8
RoIC*	61.2	73.1	73.9	87.4	97.5
Profitability ratios (%)					
Gross margin	52.0	54.8	57.2	58.5	59.0
EBITDA margin	33.6	36.3	37.5	38.4	38.8
EBIT margin	30.7	33.8	35.0	36.0	36.5
PAT margin	25.6	27.3	29.6	29.1	29.4
Liquidity ratios (%)					
Current ratio	1.9	1.9	1.8	1.8	1.7
Quick ratio	1.0	1.0	1.1	1.0	1.0
Turnover ratios					
Total asset turnover ratio (x)	0.9	0.9	0.9	1.0	1.1
Fixed asset turnover ratio (x)	2.5	2.9	2.8	3.2	3.5
Inventory days	131	126	135	125	125
Debtors days	13	12	13	12	13
Creditor days	56	52	55	51	52

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

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DISCLOSURE OF INTEREST

Name of the Research Analyst : Vishal Punmiya

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

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