

Strong Cigarette Volume Growth; Maintain BUY

Est. vs. Actual for Q3FY25: Not comparable as ITC posted Ex-ITC numbers

Changes in Estimates post Q3FY25

FY26E/FY27E: Revenue: -6%/-6%; **EBITDA:** -10%/-10%; **PAT:** -10%/-9%

Cut in estimates is largely attributed to the demerger of ITC hotels, hence not comparable

Recommendation Rationale

- **Resilient Performance:** ITC delivered a resilient Q3FY25 performance with 8% YoY revenue growth (ex-Hotels), driven by strong growth in cigarettes and the Agri segment. At the same time, the FMCG and Paperboard businesses reported muted performance. The Hotels business reported a strong ~15% revenue growth on a high base. The Cigarette segment grew 8% YoY, led by volume growth of ~6% YoY, ahead of our and street expectations of 3-4%. The Agri segment expanded 9.7% YoY, driven by leaf tobacco and value-added agri exports. Meanwhile, the FMCG business reported moderate growth of 4% YoY, impacted by a broad-based slowdown in the sector. The Paperboard business grew 3% YoY but faced pricing pressures due to low-cost Chinese and Indonesian supplies, which weighed on realisations.
- **Gross margins** declined by 255bps YoY to 53.8% due to a sharp escalation in key input materials (edible oils, wheat, potato, leaf tobacco, and wood) and lower realisations in the paperboard business.
- **Long-term story remains strong:** We believe ITC's long-term growth trajectory remains intact, with most segments (excluding FMCG and Paperboards) on a steady path. 1) Cigarette volumes continue to grow, supported by new innovations and premiumisation. 2) The Agribusiness remains resilient, driven by strong customer relationships and agile execution in leaf tobacco, coffee, and spices. 3) While FMCG growth has been impacted by muted urban demand and input cost inflation, the sector is poised for a recovery. The government's recent budget measures, along with expanding outlet coverage, localisation strategies, and premiumisation efforts, are expected to revive growth in the coming quarters.
- **Hotel Business has demerged into ITC Hotels Limited (ITCHL) since Jan 1, 2025.**

Sector Outlook: Positive

Company Outlook & Guidance: We have cut our FY25/FY26 estimates to account for the ITC Hotels demerger, while making a marginal revision to factor in volatile input costs and continued pressure on the paper and paperboard business.

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

Current TP: Rs 510/share (Earlier TP Rs 550).

Recommendation With an upside potential of 16% from the CMP, we **maintain** our BUY rating on the stock.

Financial Performance: ITC reported an 8% YoY revenue growth (ex-Hotels), driven by strong performance in the Agri and Cigarette businesses, while Paperboard and FMCG remained muted. Gross margins contracted by 255 bps YoY to 53.8%, primarily due to higher raw material costs. EBITDA grew by 1.5% YoY, though margins declined by 229 bps YoY to 34.7%. The reported PAT stood at Rs 5,638 Cr, up 1.19% YoY (2.1% on a comparable basis).

Key Financials (Standalone)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	16,818	-9.0	8.3	17,713	-5.1
EBITDA	5,828	-4.8	1.6	6,231	-6.5
EBITDA Margin (%)	34.7	151 bps	-229 bps	35.2	-52 bps
Net Profit	5,638	11.0	1.2	5,150	9.5
EPS (Rs)	4.5	11.0	0.6	4.1	9.5

Source: Company, Axis Research

(CMP as of 6th February 2025)

CMP (Rs)	441
Upside /Downside (%)	16%
High/Low (Rs)	528/399
Market cap (Cr)	552300
Avg. daily vol. (6m) Shrs.'000	13448
No. of shares (Cr)	1251

Shareholding (%)

	June-24	Sep-24	Dec-24
Promoter	0.0	0.0	0.0
FII's	40.5	40.5	40.2
MFs / UTI	11.9	12.8	12.9
Banks / FI's	7.9	7.8	7.9
Others	39.7	38.9	39.1

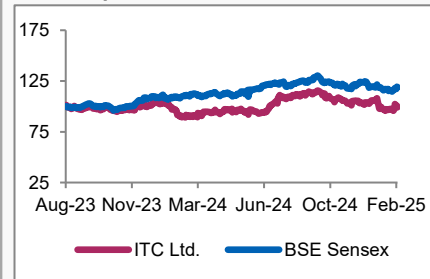
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	68,276	73,417	80,452
EBITDA	23,234	25,282	28,061
Net Profit	19,534	21,314	23,689
EPS (Rs.)	15.6	17.1	19.0
PER (x)	28.2	25.8	23.2
EV/EBITDA (x)	22.9	21.0	18.7
P/BV (x)	7.4	7.0	6.5
ROE (%)	26.3	27.3	28.1

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-6%	-6%
EBITDA	-10%	-10%
PAT	-10%	-9%

Relative performance



Source: Ace Equity, Axis Securities

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Cigarettes(~80% of EBIT)

- ITC's cigarette revenue growth was strong at 8.1% YoY (2-3% volume growth), while EBIT grew 4.1% YoY. EBIT margins declined by 211bps YoY to 60.5% owing to higher RM (tobacco). However, this was partly offset by the improved mix, calibrated price hikes, and strategic cost savings.

Outlook

- We believe ITC's long-term growth outlook remains intact. The stock is currently trading at 23x FY27E EPS, with a 3-4% dividend yield providing a margin of safety compared to peers. Valuations of other larger players (HUL/Nestlé) remain elevated, making ITC a more attractive long-term investment.

Other Key Highlights

- **Cigarette Business**-The Cigarettes segment reported an 8.1% YoY revenue growth, driven by strategic market interventions and efforts to counter illicit trade. The premium segment and new innovations continued to gain traction, while leaf tobacco cost inflation was partially offset through product mix optimization, calibrated pricing, and cost controls. Trade marketing efforts were restructured for better execution, and the Union Budget 2025's Track and Trace mechanism is expected to strengthen enforcement against illicit trade, supporting the legal industry's recovery.
- **FMCG (others)** – The FMCG segment reported 4.0% YoY revenue growth in Q3FY25 (5.2% YoY excluding Notebooks), despite a muted demand environment. Growth was primarily driven by Atta, Spices, Snacks, Frozen Snacks, Dairy, Premium Personal Wash, Homecare, and Agarbatti, while the Notebooks category faced headwinds due to a high base effect and aggressive pricing strategies by local brands, following a sharp drop in paper prices. The premium portfolio and emerging distribution channels (e-commerce, quick commerce, and modern trade) continued to perform well, supported by the sharp execution of channel-specific strategies, collaborations, and category-focused initiatives. However, competitive intensity remained high, particularly in Noodles, Snacks, Biscuits, and Popular Soaps, where local players exerted pressure. During the quarter, severe inflationary pressures impacted key input costs, including edible oil, wheat, maida, potato, cocoa, and packaging materials. The company partially mitigated cost inflation through strategic cost management, calibrated price hikes, and a premiumisation strategy. Despite near-term cost pressures, it maintained substantial marketing investments to sustain growth momentum and market leadership. On the operational front, the company expanded its distribution footprint with a deep and wide multi-channel network, enhancing product availability and visibility. In Q3FY25, the segment reported an EBITDA margin of 8.5%, reflecting resilient execution despite inflationary headwinds.
- **Hotels** – The Hotels business delivered its best-ever quarterly performance, with revenue up 14.6% YoY and PBT surging 43.4% YoY, driven by Retail, Wedding, and F&B segments. EBITDA margins expanded 450 bps YoY, supported by higher RevPAR, operating leverage, and strategic cost controls. The demerger of ITC's Hotels business into ITC Hotels Limited (ITCHL) became effective on January 1, 2025, with ITCHL shares listed on January 29, 2025. During the quarter, five new properties with 330 keys were added, while ITC Ratnadipa, Colombo, continued to gain traction. The business achieved cash breakeven at the operating profit level in Q3.
- **Agri** – The Agri-Business segment posted a 9.7% YoY revenue growth, with PBIT surging 21.6% YoY, fueled by robust demand for Leaf Tobacco and Value-Added Agri exports. Coffee exports witnessed strong traction, while the Guntur spices processing facility continued to grow. The company is expanding its Medicinal and Aromatic Plant Extracts (MAPE) initiative, supported by a 100-acre organic-certified training farm in Sehore, Madhya Pradesh. Meanwhile, despite cost pressures, leaf tobacco exports grew due to new business development and superior crop mix. Additionally, the Nicotine & Nicotine derivative facility at ITC IndiVision Limited is being progressively ramped up, with product trials in advanced stages and export shipments set to commence soon.
- **Paperboards** – Despite soft domestic demand, rising wood costs, and low-priced imports from China and Indonesia, the segment posted a 3.1% YoY revenue growth, driven by robust exports and a focus on premium offerings. The Value-Added Paperboards (VAP) segment maintained its leadership position, with anchor grades, including liquid packaging board, recording double-digit growth. Sustainable packaging solutions continued to scale up, with the innovative 'FiloBev Mini' launched as a plastic-free alternative for small cups. Heavy cyclonic rainfall in core plantation areas further escalated domestic wood costs. To mitigate this, the company is accelerating plantations, expanding to new places, and leveraging satellite-based monitoring systems. Meanwhile, engagement with policymakers remains ongoing to curb low-priced paperboard imports and bolster domestic industry competitiveness.

Acquisition

ITC Expands Frozen & Ready-to-Cook Foods Portfolio with Prasuma Acquisition:-

ITC has entered into definitive agreements to acquire Ample Foods Private Limited (AFPL), including its wholly-owned subsidiary Chao Chao Foods Private Limited (CCFPL), along with Meat and Spice Private Limited (MSPL). The acquisition strengthens ITC's footprint in the frozen, chilled, and ready-to-cook foods segment, leveraging Prasuma's established presence in oriental cuisine, premium delicatessens, and raw meats.

Transaction Details:

- Initial Investment: Company to invest Rs131 Cr for a 43.8% stake, expected to close by March 2025.
- Further Acquisition: Company will invest additional Rs56 Cr to increase stake to 62.5% by April 2027.
- Full Ownership: The remaining 37.5% in AFPL and 100% in MSPL will be acquired by June 2028, based on pre-agreed valuation criteria.

With a portfolio spanning 170+ products under Prasuma, Meatigo by Prasuma, and Prasuma Momo Kitchen, this acquisition positions ITC to capitalize on a Rs10,000+ Cr market, expected to witness rapid growth.

Key Risks to Our Estimates and TP

- Increased competitive intensity in Cigarettes, RM inflation, and the economic slowdown impacting Hotels and other cyclical businesses.

Change in Estimates

	Old		New		% change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	78,013	85,854	73,417	80,452	-6%	-6%
EBITDA	28,188	31,047	25,282	28,061	-10%	-10%
PAT	23,688	26,144	21,314	23,689	-10%	-9%
EPS	19	20.9	17.1	19.0	-10%	-9%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q3FY24	Q2FY25	Axis Sec Est.	Q3FY25	YoY growth %	QoQ growth %	Axis Sec Est. Var (%)
Volume growth est. (% YoY)	-2.0	3.0	3.0	6.0	500 bps	0 bps	
Net sales	15,533	18,477	17,713	16,818	8.27	(8.98)	(5.1)
Other operating Income	163	173	186	235	44.10	36.10	26.3
Gross Profits	8,753	9,449	10,185	9,048	3.37	(4.24)	(11.2)
Gross Margin (%)	56.4	51.1	57.5	53.8	-255 bps	266 bps	-370 bps
Staff costs	809	816	1,054	868	7.23	6.38	(17.7)
Other operating expenses	2,367	2,682	3,085	2,587	9.27	(3.57)	(16.2)
EBITDA	5,739	6,123	6,231	5,828	1.55	(4.82)	(6.5)
EBITDA margin (%)	36.9	33.1	35.2	34.7	-229 bps	151 bps	-52 bps
Other Income	1,134	874	1,192	1,087	(4.14)	24.37	(8.8)
Interest	(10)	(12)	15	(8)	(20.57)	(36.60)	(150.7)
Depreciation	(343)	(368)	449	(362)	5.43	(1.75)	(180.6)
PBT	6,520	6,617	6,960	6,546	0.39	(1.08)	(5.9)
Tax	(1,101)	(1,641)	1,809	(1,652)	50.01	0.69	(191.3)
Tax rate (%)	-16.9	-24.8	26.0	-25.2	-835 bps	-44 bps	
Reported PAT	5,572	5,078	5,150	5,638	1.19	11.03	9.5
Reported EPS	4.5	4.1	4.1	4.5	0.60	11.03	9.5

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Net sales	64,782	68,276	73,417	80,452
Growth, %	(1)	5	8	10
Other operating income	659	725	797	877
Total income	65,441	69,001	74,215	81,329
Raw material expenses	(26,982)	(31,299)	(33,490)	(36,504)
Employee expenses	(3,732)	(3,919)	(4,193)	(4,612)
Other Operating expenses	(10,248)	(10,549)	(11,249)	(12,151)
EBITDA (Core)	24,479	23,234	25,282	28,061
Growth, %	2	(5)	9	11
Margin, %	38	34	34	35
Depreciation	(1,648)	(1,521)	(1,625)	(1,729)
EBIT	22,831	21,713	23,657	26,332
Growth, %	2	(5)	9	11
Margin, %	35	32	32	33
Interest paid	(46)	(46)	(47)	(47)
Other Income	3,538	3,503	3,853	4,239
Non-recurring Items	(8)	-	-	-
Pre-tax profit	26,316	25,170	27,463	30,523
Tax provided	(5,894)	(5,636)	(6,149)	(6,834)
Profit after tax	20,422	19,534	21,314	23,689
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,248	1,248	1,248	1,248
Wtd avg shares (Cr)	1,248	1,248	1,248	1,248

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Mar,	FY24	FY25E	FY26E	FY27E
Cash & bank	6,218	6,592	8,567	12,695
Marketable securities at cost	11,917	11,917	11,917	11,917
Debtors	3,311	3,490	3,753	4,112
Inventory	12,632	13,313	14,315	15,687
Loans & advances	9	9	9	9
Other current assets	1,984	1,984	1,984	1,984
Total current assets	36,071	37,305	40,545	46,404
Investments	22,822	22,822	22,822	22,822
Gross fixed assets	37,304	39,904	42,504	45,104
Less: Depreciation	(11,561)	(13,082)	(14,707)	(16,436)
Add: Capital WIP	1,087	1,087	1,087	1,087
Net fixed assets	26,830	27,909	28,884	29,755
Non-current assets	1,605	1,605	1,605	1,605
Total assets	87,328	89,641	93,856	1,00,586
Current liabilities	11,656	11,902	12,263	12,758
Provisions	981	993	1,011	1,035
Total current liabilities	12,637	12,895	13,274	13,793
Non-current liabilities	2,457	2,457	2,457	2,457
Total liabilities	15,094	15,352	15,731	16,250
Paid-up capital	1,248	1,248	1,248	1,248
Reserves & surplus	70,985	73,041	76,876	83,087
Shareholders' equity	72,233	74,289	78,125	84,335
Total equity & liabilities	87,328	89,641	93,856	1,00,586

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Pre-tax profit	26,316	25,170	27,463	30,523
Depreciation	1,648	1,521	1,625	1,729
Chg in working capital	280	(602)	(886)	(1,212)
Total tax paid	(5,447)	(5,636)	(6,149)	(6,834)
Other operating activities	-	-	-	-
Cash flow from operating activities	22,796	20,453	22,053	24,206
Capital expenditure	(2,607)	(2,600)	(2,600)	(2,600)
Chg in investments	(6,458)	-	-	-
Chg in marketable securities	4,440	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	(4,626)	(2,600)	(2,600)	(2,600)
Free cash flow	18,170	17,853	19,453	21,606
Equity raised/(repaid)	38,327	2,056	3,836	6,211
Debt raised/(repaid)	(2)	-	-	-
Dividend (incl. tax)	(17,163)	(17,479)	(17,479)	(17,479)
Cash flow from financing activities	21,163	(15,423)	(13,643)	(11,268)
Net chg in cash	39,333	2,430	5,810	10,338
Opening cash balance	3,831	6,218	6,592	8,567
Closing cash balance	6,218	6,592	8,567	12,695

Source: Company, Axis Securities

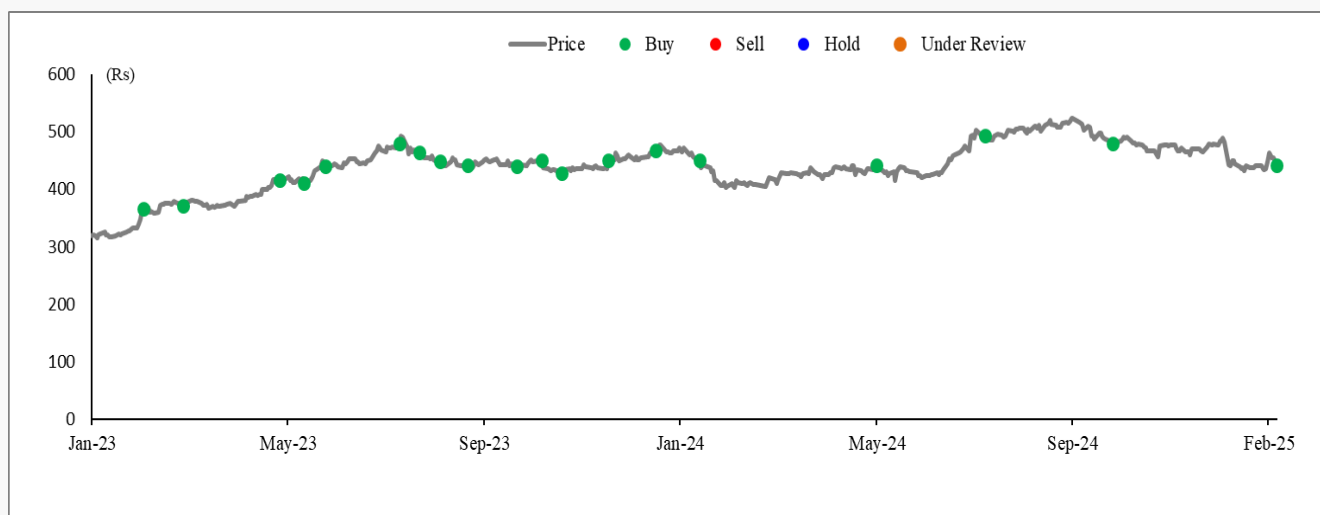
Ratio Analysis

(%)

	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	16.4	15.6	17.1	19.0
Growth, %	8.9	(4.4)	9.1	11.1
Book NAV/share (INR)	57.9	59.5	62.6	67.6
FDEPS (INR)	16.4	15.6	17.1	19.0
CEPS (INR)	17.7	16.9	18.4	20.4
CFPS (INR)	12.8	13.6	14.6	16.0
DPS (INR)	13.7	14.0	14.0	14.0
Return ratios				
Return on assets (%)	24.1	22.1	23.3	24.4
Return on equity (%)	28.3	26.3	27.3	28.1
Return on capital employed (%)	28.3	25.8	27.1	28.3
Turnover ratios				
Asset turnover (x)	2.1	2.0	2.1	2.2
Sales/Total assets (x)	0.8	0.8	0.8	0.8
Sales/Net FA (x)	2.5	2.5	2.6	2.7
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	18.7	18.7	18.7	18.7
Inventory days	71.2	71.2	71.2	71.2
Payable days	40.0	37.7	38.0	38.2
Working capital days	31.1	32.8	35.0	37.5
Liquidity ratios				
Current ratio (x)	2.9	2.9	3.1	3.4
Quick ratio (x)	1.9	1.9	2.0	2.3
Valuation				
PER (x)	27.0	28.2	25.8	23.2
PEG (x) - y-o-y growth	3.0	(6.4)	2.8	2.1
Price/Book (x)	7.6	7.4	7.0	6.5
EV/Net sales (x)	8.2	7.8	7.2	6.5
EV/EBITDA (x)	21.8	22.9	21.0	18.7
EV/EBIT (x)	23.3	24.5	22.4	20.0

Source: Company, Axis Securities

ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
02-Feb-23	BUY	410	Company Update
06-Feb-23	BUY	460	Result Update
01-Mar-23	BUY	460	Top Picks
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
02-Aug-24	BUY	550	Result Update
24-Oct-24	BUY	550	Result Update
07-Feb-25	BUY	510	Result Update

Source: Axis Securities

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