

Below expectations overall

ITC's Dec-Q earnings were below expectations overall. Cigarettes performance looked muted yoy (volumes down c.2%) but longer-range data suggests a healthier state of affairs (4yr CAGR of c.4% - tad below Sep-Q's c.5% but better than the preceding two quarters). Notably, the Sep-to-Dec sequential volume uptick was steeper-than-trend last year, and there were also some weather-related disruptions in some key markets during the quarter. FMCG continued to do well despite a challenging macro; growth has moderated but better vs peers; margin improvement trajectory remained strong. Hotels was a stand-out contributor this time round. Paperboard and Agri, however, remained under severe pressure causing significant drag in overall profitability. We expect stock to be muted in the near-term given a weaker overall environment, though we reckon there is potential for re-rating given a sharper capital-allocation strategy.

- Below expectations overall but FMCG turned in a resilient performance in a challenging environment:** ITC's overall sales grew 2.1% to INR 174.8bn, EBITDA declined 3.2% to INR 60.2bn and adjusted net profit grew by 1.5% INR 51.1bn. The Hotels segment was a standout performer this time round with a significant beat on both topline and profits. FMCG performance was on expected lines – growth was resilient at 7.6% and margin continued to improve. Growth in FMCG was driven by Staples, Dairy, Beverages, HPC, Stationery while Biscuits, Snacks, Noodles, popular-end Soaps had to deal with increased competitive intensity including from local and regional players. FMCG EBITDA margin has been steady at 11% YTD vs 9.1% LY – helped by multi-pronged interventions relating to premiumisation, supply-chain, digital initiatives and some judicious pricing actions.
- Cigarettes business consolidated on a high base after a period of sustained growth momentum:** Cigarette volumes declined during c.2% during the quarter, as per our workings. There was, however, an element of base effect here as sequential volume uptick in 3Q last year was tad higher than trend levels. When seen on a normalised basis (4yr CAGR), cigarette volumes grew c.4% during Dec-Q which is in the ballpark of that seen in recent few quarters. Cigarettes revenue grew by 3.6% (4yr CAGR of c.9%) driven by better mix and pricing. Premium segments and differentiated variants continued to perform well. Cigarette net margin was flattish yoy as higher taxes and costs escalation were mitigated by better mix, strategic costs interventions and calibrated price-hikes.
- Hotels was a standout performer but Paperboards and Agri were under severe pressure:**
 - Paperboards** reported another very weak quarter with sales down 9.7% due to subdued domestic demand and excess low-priced Chinese supplies in the global market. Scale deleverage, lower realisations and sharp escalation in wood costs led to a steep c.51% decline in EBIT.
 - Agri** revenue fell 2.2% due to certain restrictions placed in a few of the commodities to ensure food security and control inflation. EBIT declined by a steeper 13.3%.
 - Hotels** delivered a strong quarter with 18% growth in revenue helped by strong ARR and Occupancy growth across properties. EBITDA margin improvement of 475bps to 36.2% was led by higher ARR, operating leverage, benefits from costs initiatives, and drove a 36% growth in Hotels EBITDA during the quarter.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	555
Upside/(Downside)	23.3%
Previous Price Target	555
Change	0.0%

Key Data – ITC IN

Current Market Price	INR450
Market cap (bn)	INR5,613.1/US\$67.5
Free Float	52%
Shares in issue (mn)	12,308.8
Diluted share (mn)	12,465.3
3-mon avg daily val (mn)	INR4,964.1/US\$59.7
52-week range	500/327
Sensex/Nifty	71,942/21,738
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	-2.7	-4.0	30.8
Relative*	-3.5	-11.0	9.5

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	601,286	704,366	715,077	779,724	851,217
Sales Growth (%)	22.5	17.1	1.5	9.0	9.2
EBITDA	206,584	256,649	270,992	300,620	333,864
EBITDA Margin (%)	34.0	36.1	37.5	38.2	38.8
Adjusted Net Profit	152,356	191,271	202,141	223,429	248,217
Diluted EPS (INR)	12.4	15.4	16.2	17.9	19.8
Diluted EPS Growth (%)	15.6	24.5	5.4	10.2	10.8
ROIC (%)	44.4	54.5	56.8	61.3	65.6
ROE (%)	24.8	29.1	29.3	31.5	33.0
P/E (x)	36.4	29.2	27.7	25.2	22.7
P/B (x)	8.9	8.1	8.1	7.7	7.3
EV/EBITDA (x)	25.4	20.4	19.4	17.4	15.7
Dividend Yield (%)	2.6	3.4	3.1	3.5	3.9

Source: Company data, JM Financial. Note: Valuations as of 29/Jan/2024

Exhibit 1. 3Q and 9MFY24 segment snapshot (Standalone): Strong performance in Hotels and FMCG offset by weakness in Paperboards and Agribusiness

	3QFY24	3QFY23	YoY chg %	3QFY24E	% var	9MFY24	9MFY23	YoY chg %
Segment Revenue – Gross								
FMCG – Cigarettes	75,488	72,882	3.6%	77,601	-2.7%	226,718	208,510	8.7%
FMCG – Others	52,091	48,414	7.6%	51,803	0.6%	156,667	141,776	10.5%
Hotels	8,420	7,124	18.2%	8,000	5.3%	20,916	18,033	16.0%
Agribusiness	30,547	31,238	-2.2%	33,424	-8.6%	126,911	145,937	-13.0%
Paperboards	20,809	23,055	-9.7%	20,750	0.3%	62,716	68,603	-8.6%
	187,355	182,713	2.5%	191,578	-2.2%	593,927	582,860	1.9%
Inter-segment	12,527	11,492	9.0%	14,368	-12.8%	75,182	60,291	24.7%
TOTAL	174,828	171,222	2.1%	177,210	-1.3%	518,745	522,569	-0.7%
Segment EBIT								
FMCG – Cigarettes	47,281	46,197	2.3%	48,523	-2.6%	141,659	132,380	7.0%
FMCG – Others	4,318	3,481	24.1%	4,246	1.7%	13,013	8,726	49.1%
Hotels	2,297	1,462	57.1%	1,870	22.8%	4,867	3,423	42.2%
Agribusiness	3,393	3,915	-13.3%	4,011	-15.4%	10,519	10,207	3.1%
Paperboards	2,960	6,062	-51.2%	3,631	-18.5%	10,842	18,490	-41.4%
Total Segment EBIT	60,248	61,116	-1.4%	62,281	-3.3%	180,900	173,225	4.4%
Net Unallocable Exp	-7,058	-5,659	24.7%	-6,810	3.6%	-16,996	-8,332	104.0%
PBT before exceptional items	67,305	66,775	0.8%	69,091	-2.6%	197,896	181,556	9.0%
Adjusted Net Profit	51,078	50,310	1.5%	51,749	-1.3%	149,375	136,665	9.3%
Segment EBIT margin %								
FMCG – Cigarettes	62.6%	63.4%	-75 bps	62.5%	11 bps	62.5%	63.5%	-101 bps
FMCG – Others	8.3%	7.2%	110 bps	8.2%	9 bps	8.3%	6.2%	215 bps
Hotels	27.3%	20.5%	676 bps	23.4%	390 bps	23.3%	19.0%	429 bps
Agribusiness	11.1%	12.5%	-143 bps	12.0%	-89 bps	8.3%	7.0%	129 bps
Paperboards	14.2%	26.3%	-1207 bps	17.5%	-328 bps	17.3%	27.0%	-966 bps
Segment EBIT	34.5%	35.7%	-123 bps	35.1%	-68 bps	34.9%	33.1%	172 bps

Source: Company, JM Financial

Exhibit 2. 3Q & 9MFY24 result snapshot (Standalone)

	3QFY24	3QFY23	YoY chg %	2QFY24	QoQ chg %	9MFY24	9MFY23	YoY chg %
Sales	174,828	171,222	2.1%	175,488	-0.4%	518,745	522,569	-0.7%
Other Operating Income	1,691	1,433	17.9%	1,563	8.1%	4,779	4,883	-2.1%
Total Revenue	176,519	172,655	2.2%	177,051	-0.3%	523,524	527,452	-0.7%
Gross Profit	94,648	94,112	0.6%	93,295	1.5%	280,544	270,709	3.6%
Gross Profit Margin %	54.1%	55.0%	-83 bps	53.2%	97 bps	54.1%	51.8%	228 bps
Staff Cost	9,498	8,770	8.3%	9,092	4.5%	27,628	26,755	3.3%
Other Expenses	26,598	24,543	8.4%	25,350	4.9%	74,536	71,487	4.3%
Reported EBITDA	60,243	62,232	-3.2%	60,416	-0.3%	183,160	177,351	3.3%
EBITDA margin %	34.5%	36.3%	-189 bps	34.4%	3 bps	35.3%	33.9%	137 bps
Depreciation	4,168	4,072	2.3%	4,132	0.9%	12,325	12,408	-0.7%
EBIT	56,075	58,160	-3.6%	56,284	-0.4%	170,835	164,943	3.6%
Net Finance Charges / (Income)	-11,230	-8,615	30.3%	-8,851	26.9%	-27,061	-16,613	62.9%
PBT before exceptional items	67,305	66,775	0.8%	65,135	3.3%	197,896	181,556	9.0%
PBT after exceptional items	67,250	66,775	0.7%	65,135	3.2%	197,841	181,556	9.0%
Reported Net Profit	55,721	50,310	10.8%	49,270	13.1%	154,018	136,665	12.7%
Adjusted Net Profit	51,078	50,310	1.5%	49,270	3.7%	149,375	136,665	9.3%

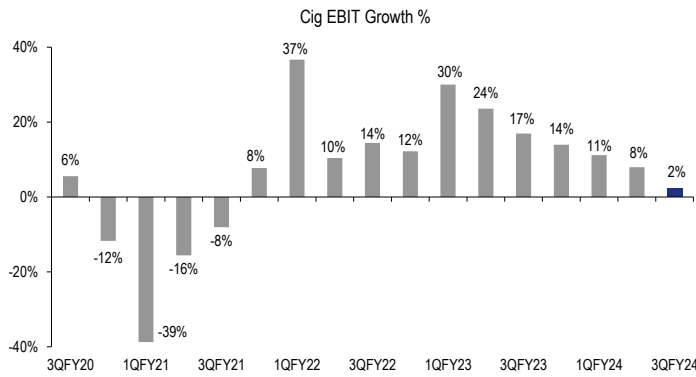
Source: Company, JM Financial

Exhibit 3. Costs break-up

% of sales	3QFY24	3QFY23	2QFY24	9MFY24	9MFY23
Cost of Goods Sold	45.9%	45.0%	46.8%	45.9%	48.2%
Staff Cost	5.4%	5.1%	5.2%	5.3%	5.1%
Other Expenses	15.2%	14.3%	14.4%	14.4%	13.7%
Depreciation	2.4%	2.4%	2.4%	2.4%	2.4%

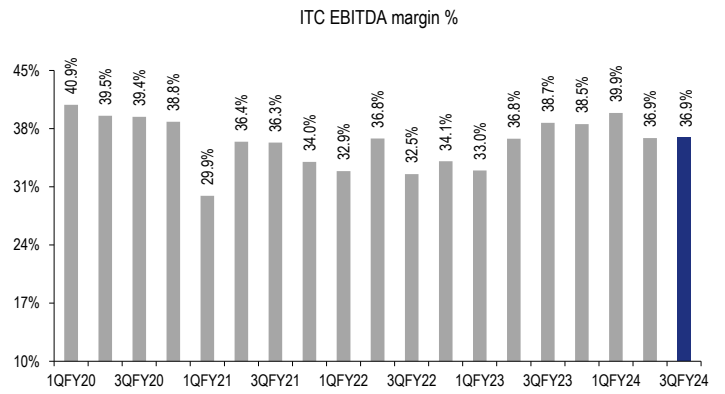
Source: Company, JM Financial

Exhibit 4. Cigarettes EBIT growth was muted at 2% for Dec-Q



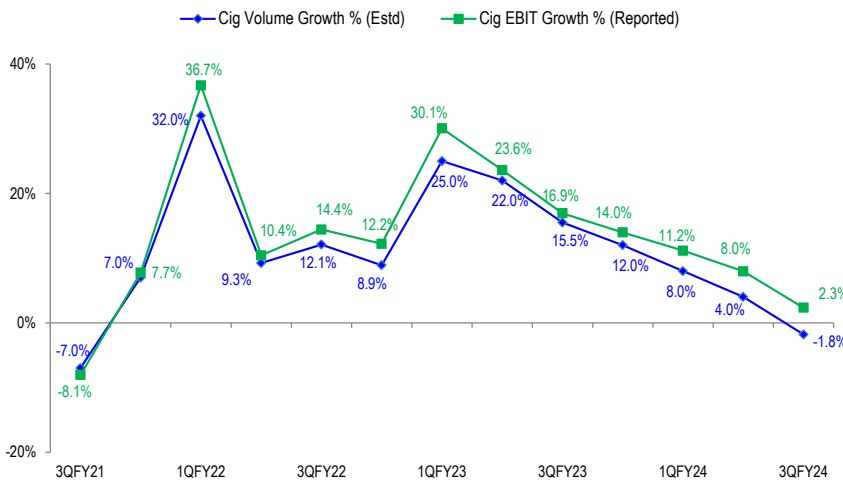
Source: Company, JM Financial

Exhibit 5. Overall ITC-level EBITDA margin down 177bps - challenges in Paperboards and Agribusiness



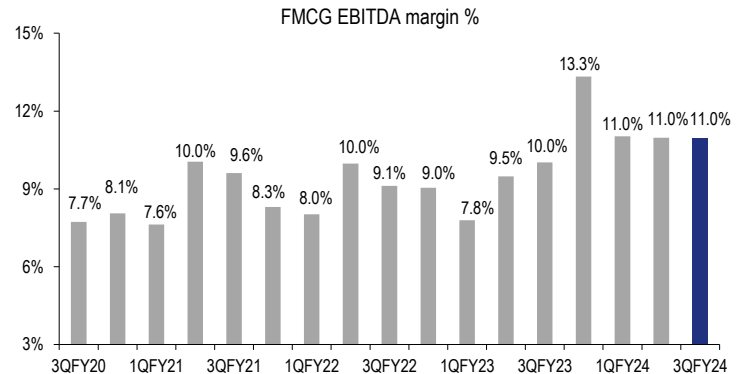
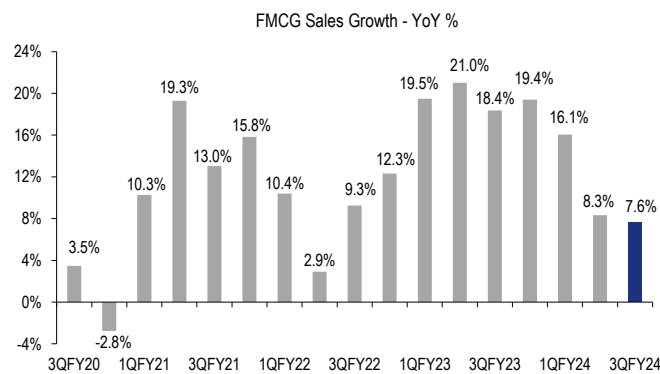
Source: Company, JM Financial. Note: Margin above are based on revenue net of excise on production as disclosed.

Exhibit 6. Cigarettes performance was weak during the quarter



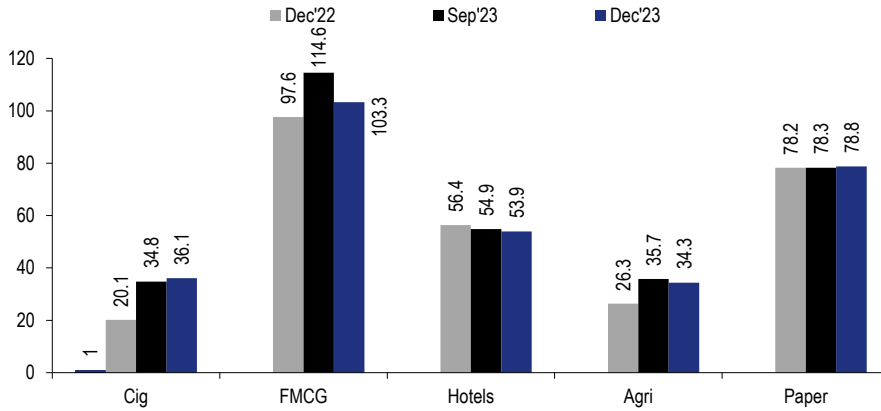
Source: Company, JM Financial

Exhibit 7. FMCG sales grew 7.6% yoy with healthy expansion in EBITDA margin: +95bps yoy, flat qoq



Source: Company, JM Financial

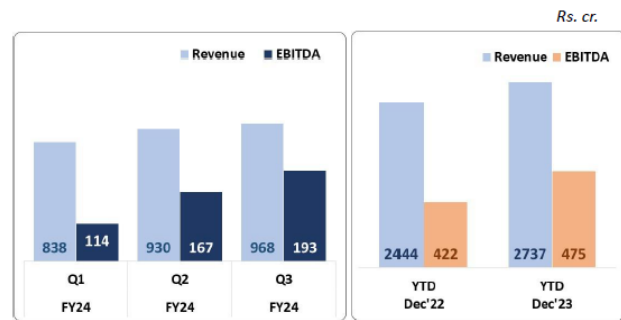
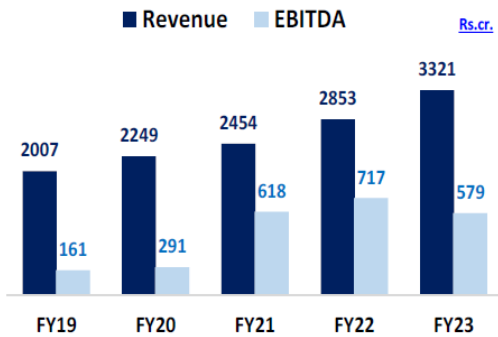
Exhibit 8. Trends in segment capital employed (INR bn)



Source: Company, JM Financial

Exhibit 9. ITC Infotech – key snapshot

ITC Infotech Customer Centricity | Employee Centricity | Operational Excellence

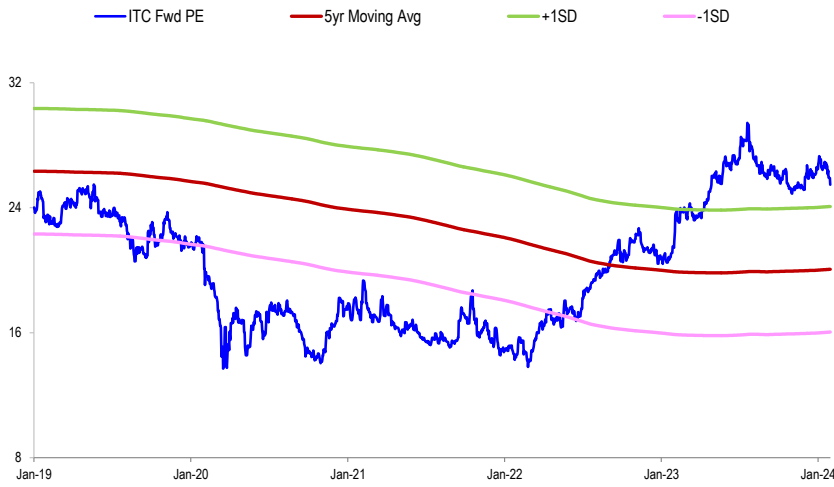



- Revenue up 11.0% YoY and 4.1% QoQ
- Healthy Total Contract Value (TCV) signings; strong pipeline
- Investments continue in **Capability building in strategic focus areas, sales org. & infrastructure.**

Q3 EBITDA margin @ upper-end of mid-tier IT cos.

Source: Company, JM Financial. Note: Rs1cr = INR 10mn

Exhibit 10. ITC one-year forward PE band: significant rebound in recent times; a sharper capital allocation strategy should drive further re-rating, in our view



Source: Company, Bloomberg, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement						Balance Sheet					
	(INR mn)						(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net sales	601,286	704,366	715,077	779,724	851,217	Shareholders' Fund	624,556	691,553	690,239	730,529	773,198
Sales Growth	22.5%	17.1%	1.5%	9.0%	9.2%	Share capital	12,323	12,428	12,465	12,503	12,540
Other operational income	5,867	6,916	7,021	7,656	8,358	Reserves & Surplus	612,232	679,125	677,773	718,026	760,657
Total Revenue	607,153	711,282	722,099	787,380	859,575	Preference Share Capital	0	0	0	0	0
Cost of Goods Sold/Op. Exp.	264,323	291,971	280,304	305,017	332,368	Minority Interest	3,663	3,835	6,905	10,299	14,069
Personnel cost	48,906	57,362	57,162	61,160	65,746	Total Loans	56	388	388	388	388
Other expenses	87,341	105,299	113,641	120,584	127,596	Def. Tax Liab / Assets (-)	16,099	15,770	15,761	15,751	15,740
EBITDA	206,584	256,649	270,992	300,620	333,864	Total - Equity & Liab	644,374	711,546	713,293	756,967	803,394
EBITDA Margin	34.0%	36.1%	37.5%	38.2%	38.8%	Net Fixed Assets	272,133	285,873	295,165	304,535	314,247
EBITDA Growth (%)	21.5%	24.2%	5.6%	10.9%	11.1%	Gross Fixed Assets	324,097	355,708	384,311	414,331	446,081
Depn & Amort	17,324	18,090	19,433	20,773	22,165	Intangible Assets	0	0	0	0	0
EBIT	189,260	238,559	251,558	279,846	311,699	Less: Depn. & Amort.	90,452	105,944	125,378	146,151	168,316
Other Income	18,364	19,805	22,493	23,064	24,817	Capital WIP & Net Lease Assets	38,488	36,110	36,231	36,355	36,481
Finance Cost	394	432	439	478	522	Investments	248,410	294,150	308,858	324,301	340,516
PBT before Excep & Forex	207,230	257,932	273,613	302,432	335,994	Current Assets	248,979	275,614	253,069	283,553	316,835
Excep & forex Inc/Loss(-)	0	729	0	0	0	Inventories	109,736	119,141	118,994	129,752	141,649
PBT	207,230	258,661	273,613	302,432	335,994	Sundry Debtors	24,619	29,562	30,011	32,724	35,725
Taxes	52,373	64,384	68,942	76,203	84,660	Cash & Bank Balances	46,693	70,243	46,534	58,346	70,979
Extraordinary Inc/Loss(-)	0	729	0	0	0	Loans & Advances	54,870	41,051	41,675	45,442	49,609
Assoc. Profit/Min. Int.(-)	2,430	2,360	2,531	2,800	3,117	Other Current Assets	13,061	15,618	15,855	17,288	18,874
Reported Net profit	152,427	191,917	202,141	223,429	248,217	Current Liab. & Prov.	125,148	144,092	143,799	155,421	168,203
Adjusted Net Profit	152,356	191,271	202,141	223,429	248,217	Current Liabilities	115,271	131,378	130,359	140,662	151,917
Net Margin (%)	25.3%	27.2%	28.3%	28.7%	29.2%	Provisions & Others	9,877	12,714	13,440	14,759	16,285
Diluted share capital (mn)	12,323	12,428	12,465	12,503	12,540	Net Current Assets	123,831	131,522	109,271	128,132	148,632
Diluted EPS (Rs)	12.4	15.4	16.2	17.9	19.8	Total - Assets	644,374	711,546	713,293	756,967	803,394
Diluted EPS Growth	15.6%	24.5%	5.4%	10.2%	10.8%						
Total Dividend + tax	141,716	192,550	174,852	195,500	219,672						
Dividend Per Share (Rs)	11.5	15.5	14.0	15.6	17.5						

Source: Company, JM Financial

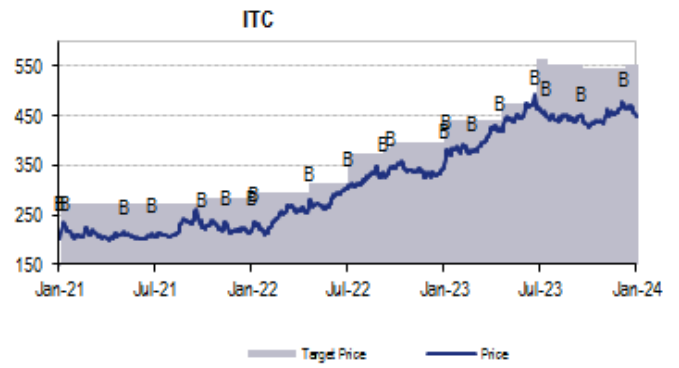
Cash Flow Statement						DuPont Analysis					
	(INR mn)										
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	207,230	258,661	273,613	302,432	335,994	Net Margin	25.3%	27.2%	28.3%	28.7%	29.2%
Depn. & Amort.	17,324	18,090	19,433	20,773	22,165	Asset Turnover (x)	0.9	1.0	1.0	1.1	1.1
Net Interest Exp. / Inc. (-)	-17,970	-19,373	-22,055	-22,585	-24,295	Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
Inc (-) / Dec in WCcap.	-995	-7,668	-2,087	-8,076	-9,063	RoE	24.8%	29.1%	29.3%	31.5%	33.0%
Others	1,986	1,568	-2,540	-2,810	-3,128	Key Ratios					
Taxes Paid	-49,820	-62,502	-68,311	-75,176	-83,464	Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Operating Cash Flow	157,755	188,776	198,054	214,557	238,209	BV/Share (Rs.)	50.7	55.6	55.4	58.4	61.7
Capex	-20,085	-26,938	-28,603	-30,019	-31,750	ROIC	44.4%	54.5%	56.8%	61.3%	65.6%
Free Cash Flow	137,670	161,837	169,451	184,538	206,459	ROE	24.8%	29.1%	29.3%	31.5%	33.0%
Inc (-) / Dec in Investments	-12,016	-43,719	-14,708	-15,443	-16,215	Net Debt/Equity (x)	-0.5	-0.5	-0.5	-0.5	-0.5
Others	9,717	13,335	22,493	23,064	24,817	P/E (x)	36.4	29.2	27.7	25.2	22.7
Investing Cash Flow	-22,385	-57,323	-20,817	-22,399	-23,148	P/B (x)	8.9	8.1	8.1	7.7	7.3
Inc / Dec (-) in Capital	2,918	24,774	2,037	2,037	2,038	EV/EBITDA (x)	25.4	20.4	19.4	17.4	15.7
Dividend + Tax thereon	-137,883	-153,971	-205,492	-185,176	-207,586	EV/Sales (x)	8.7	7.4	7.3	6.7	6.1
Inc / Dec (-) in Loans	149	142	0	0	0	Debtor days	15	15	15	15	15
Others	-989	-1,005	2,510	2,791	3,122	Inventory days	67	62	61	61	61
Financing Cash Flow	-135,805	-130,060	-200,945	-180,347	-202,427	Creditor days	107	107	107	107	107
Inc / Dec (-) in Cash	-435	1,392	-23,708	11,811	12,633						
Opening Cash Balance	47,128	68,850	70,243	46,534	58,346						
Closing Cash Balance	46,693	70,243	46,534	58,346	70,979						

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
1-Feb-21	Buy	280	
12-Feb-21	Buy	275	-1.8
2-Jun-21	Buy	275	0.0
25-Jul-21	Buy	275	0.0
28-Oct-21	Buy	285	3.6
14-Dec-21	Buy	285	0.0
1-Feb-22	Buy	290	1.8
4-Feb-22	Buy	295	1.7
19-May-22	Buy	315	6.8
1-Aug-22	Buy	375	19.0
7-Oct-22	Buy	385	2.7
21-Oct-22	Buy	395	2.6
1-Feb-23	Buy	440	11.4
3-Feb-23	Buy	440	0.0
26-Mar-23	Buy	440	0.0
18-May-23	Buy	475	8.0
24-Jul-23	Buy	565	18.9
14-Aug-23	Buy	555	-1.8
20-Oct-23	Buy	545	-1.8
8-Jan-24	Buy	555	1.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

Research Analyst(s) Certification

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