

BSE SENSEX

74,650

S&P CNX

23,484

**Stock Info**

Bloomberg	ITC IN
Equity Shares (m)	12529
M.Cap.(INRb)/(USDb)	3549 / 37.3
52-Week Range (INR)	429 / 277
1, 6, 12 Rel. Per (%)	-8/-20/-27
12M Avg Val (INR M)	7649
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	2026	2027E	2028E
Sales	788.7	804.0	861.7
Sales Gr. (%)	2.8	1.9	7.2
EBITDA	273.2	244.4	263.7
EBITDA Mrg. %	34.6	30.4	30.6
Adj. PAT	209.1	186.5	201.1
Adj. EPS (INR)	16.5	15.2	16.4
EPS Gr. (%)	5.0	-7.9	7.7
BV/Sh.(INR)	57.9	57.8	59.9

Ratios

RoE (%)	29.0	26.3	27.8
RoCE (%)	28.3	24.5	25.9
Payout (%)	90.0	90.0	90.0

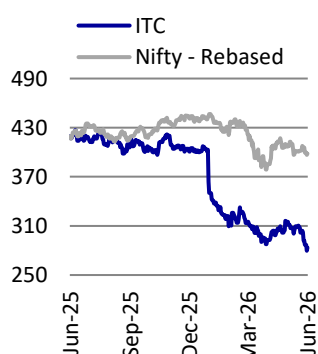
Valuations

P/E (x)	17.1	18.5	17.2
P/BV (x)	4.9	4.9	4.7
EV/EBITDA (x)	17.6	19.6	18.1
Div. Yield (%)	5.1	4.8	5.1

Shareholding pattern (%)

As On	Mar-26	Dec-25	Mar-25
Promoter	0.0	0.0	0.0
DII	49.2	48.9	45.2
FII	34.8	36.1	39.9
Others	16.0	15.0	14.9

FII Includes depository receipts

Stock Performance (1-year)**CMP: INR283****TP: INR300 (+6%)****Neutral****Cigarette earnings under a cloud; remain cautious**

Effective 1st Feb'26, the cigarette industry is witnessing one of its most disruptive regulatory resets after the implementation of GST 2.0. The revised taxation framework has resulted in an estimated 60-65% surge in cigarette taxes for ITC, implying the need for around 35% hike in MRPs (at historical mix). This was the steepest hike seen historically and a sharp departure from the largely stable tax regime maintained during 2018-25. The transition has also been unusual due to the one-month gap between the announcement (1st Jan'26) and the implementation (1st Feb'26), compared to the typical immediate or near-immediate execution seen historically. In response, ITC has adopted a calibrated and phased price hike strategy instead of taking an upfront full tax pass-through, with the objective of limiting the shift toward illicit cigarette markets and retaining market share among legal players.

- We believe the current phase can be viewed in two stages. The first stage represents a transitional adjustment period wherein ITC is gradually taking price increases to eventually reach tax-neutral levels. During this phase, the company focuses on balancing steady price hikes and market share protection while continuously assessing consumer response, competitive actions, and illicit trade dynamics across markets. Although this strategy may temporarily hurt cigarette unit economics and margins, it reduces the risk of sharp consumer disruption that could emerge from an immediate steep price reset.
- The second stage is likely to emerge once the full tax increase is absorbed into retail prices and the competitive equilibrium between legal and illicit trade stabilizes. By then, the extent of consumer dropouts, particularly among price-sensitive segments, should become clearer, enabling the industry to operate in a more predictable demand environment.
- We expect volatility in cigarette volumes and EBIT to moderate from the initial transitional phase. In this normalized phase, ITC's product portfolio, innovation pipeline, and premiumization strategy will play a critical role in rebuilding the growth momentum and defending its market positioning. Given the MRP revisions are still underway, the outlook for ITC's cigarette business remains uncertain. We do not rule out any possibility for further earnings cuts. That said, the extent of consumer acceptance for revised prices will be a key monitorable. We model 15% revenue decline and 19% dip in EBIT in the cigarette business in FY27.
- ITC's non-cigarette business continues to exhibit structural improvement. FMCG remains a key growth driver, with FY26 revenue of INR243b, implying a ~10% CAGR over FY19-26, alongside EBITDA margin expansion of ~450bp to 10% over same period. The portfolio now has four franchises with consumer spends in the INR20-50b range, reflecting increasing scale and diversification. We model a 10% revenue CAGR over FY26-28E for the segment. Meanwhile, Agri and Paperboards are positioned for a gradual recovery.
- Positive catalysts such as improving FMCG performance and paperboard margin normalization are overshadowed by the cigarette earnings headwind stemming from illicit competition, constrained pricing flexibility, and the inevitable volume-versus-margin trade-off that defines ITC's near-term trajectory. We maintain our Neutral rating with an SoTP-based TP of INR300 (18x Mar'28E EPS).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

First stage - Transitory phase of pricing post tax hike

- The revised cigarette taxation structure marks one of the sharpest hikes historically. Based on our estimates, ITC may require a >35% MRP hike (based on historical mix) across its portfolio to remain EBIT neutral.
- The revised structure is expected to increase the aggregate tax on cigarette MRP to ~65%, marking one of the sharpest tax hikes historically. This steep revision comes after nearly eight years (2018-2025) of a relatively stable taxation regime (post GST), during which ITC delivered a healthy 4-5% cigarette volume CAGR.
- ITC has adopted a calibrated pricing strategy to focus on protecting market share rather than fully passing on tax hikes immediately. Unlike history, where full price hikes were immediate after the tax increase, ITC has been following up with steady increases to avoid losing market share to illegal players. Moreover, ITC is taking a portfolio-wide approach, launching higher-length brands into lower lengths to maintain the same consumer price for the brand.

Channel checks indicate cautious pricing actions amid downtrading risks

- While the revised tax was implemented in Feb'26, old stock continued to be sold in the market through April and in May in select regions.
- To manage the impact of taxation and maintain price points, manufacturers are reducing the physical length of cigarettes. Godfrey has already transitioned its Four Square Clove Crush brand from 69mm to 64mm. This new 64mm version was launched around late March or early April with a revised MRP of INR85 (pack of 10). ITC has launched a 74mm version for its key 84mm brands like Ultra Mild, Ice Burst, etc. for INR17.5 per stick.

Second stage – Tax neutral, illegal share gain will be watchful

- After the full tax pass-on, it will be critical to see portfolio changes, share loss to illegal, downtrading, etc. Given the unprecedented price hike, it is difficult to assess the deceleration in the industry volumes, consumer drop-outs to illegal brands, and product mix changes.
- Stable taxes during 2021-2025 impacted illegal brands, with a 150bp fall in the illegal market. However, with the recent price hike, there is a significant price gap between legal and illegal brands. Given the historical learnings, it will impact the legal industry's cigarette volume. The illicit cigarette industry saw strong gains during 2012-2021, with almost 1,000bp gain to ~28% volume mix.

We estimate EBIT contraction of 19% in FY27

- ITC delivered a ~4% volume CAGR over 2018-25; however, recent tax hikes could weigh on near-term volume, keeping growth subdued. We expect cigarette volume to decline 10% in FY27E and to remain flat in FY28E.
- On the EBIT front, the high price differential after the tax increase constrains pricing flexibility, making it challenging to drive earnings growth.
- We model 15% revenue decline and 19% dip in EBIT in the cigarette business for FY27. We model a negative EBIT CAGR of ~8% for the cigarette segment over FY26-28E.

Other FMCG business: Operating metrics continue to optimize

- ITC's FMCG Others segment now the second-largest contributor to ITC's revenue, has demonstrated consistent double-digit growth and steady margin expansion, outperforming most staple peers despite a challenging demand environment.
- Growth momentum has been robust, with FMCG Others delivering a revenue CAGR of 10% over FY19-26. We expect the same CAGR over FY26-28E. With revenue at INR243b in FY26, ITC FMCG segment is the fourth-largest consumer business in our coverage universe, behind Titan, HUL and Asian Paints.
- Over the years, margin delivery has remained resilient despite high commodity costs, in contrast to peers. EBIT margins have continued to expand, supported by structural levers premiumization, scale benefits and operating leverage.

Agri and Paperboards businesses set for steady recovery

- The Agri business delivered a strong revenue CAGR of 12% over FY19-26, led by leaf tobacco and value-added products. FY26 was impacted by geopolitical disruptions (such as US tariffs and regional conflicts) and domestic regulatory measures, including stock limits and export restrictions on key agri-commodities. Over FY26-28E, we model ~14% revenue CAGR and stable EBIT margins of ~7.5%.
- The Paperboards, Paper & Packaging business remains affected by cheap supplies from China and Indonesia in global markets (including India), as well as weak demand conditions. Higher wood prices have been adversely impacting the segment's profitability for the last couple of years. However, wood prices showed signs of moderation in 2HFY26 and we expect a gradual recovery ahead.
- To strengthen its Paper business, ITC has announced the acquisition of the Century Pulp and Paper undertaking from Aditya Birla Real Estate for up to INR35b. The acquisition is aligned with the company's ITC Next strategy and is expected to address capacity constraints, accelerate scale-up versus greenfield expansion, and improve supply-chain access to northern markets.

Valuation and view

- Historically, ITC has taken immediate price increases to stay EBIT-neutral. However, given the quantum of tax increase this time, this approach is unlikely.
- We expect 10% volume decline in FY27E and flat volume in FY28E in cigarette segment. Earnings pressure on cigarettes would take away near-term catalysts (improving FMCG and Paper). Valuations remain comfortable however we do not see any near-term positive catalyst.
- ITC has a full cigarette portfolio to better navigate the tax hike, but competitive pressure from illicit cigarettes will weigh on the formal cigarette industry.
- We did a bull/bear scenario analysis ([link](#)) for ITC. In the bear case, full pass-through of the steep tax hike could trigger sharp price-led revenue decline (~20%) and ~28% EBIT contraction due to an accelerated shift toward illicit cigarettes. Conversely, the bull case assumes better consumer absorption and limited downtrading, restricting revenue decline to ~8% and a moderate cigarette EBIT decline of ~11%, supported by price/mix benefits.
- We maintain our Neutral rating on ITC with our SoTP-based TP of INR300 (implying 18x Mar'28E P/E).

Cigarette – Unprecedented tax increase with unusual pricing strategy

The cigarette business has seen a massive tax increase post GST 2.0 (effective from Feb'26). This duty hike led to three unprecedented events:

- (1) **Steepest tax increase:** The new structure increases taxes on cigarettes by 60-65% for ITC – never seen such a sharp tax hike before. It was a surprising step, particularly after keeping the tax rate neutral for nearly eight years (2018-2025).
- (2) **Long gap of one month for implementation:** The one-month gap between the new tax announcement date (1st Jan) and the implementation date (1st Feb). Earlier, there was mostly a day's gap for trade adjustment.
- (3) **Unusual price hike strategy:** ITC adopted a calibrated price hike strategy (unlike immediate tax pass-on historically) to protect drop-out of consumers from legal to illegal cigarette markets.

Thereby, we see this event in two-stage: The first stage will be the transitional phase where ITC is taking gradual price hikes to initially reach a tax-neutral level. The company is avoiding a sharp increase, as it can hurt the consumer base and can drive them to illegal cigarettes owing to the big price difference. The company is testing the markets and evaluating competition at this stage. However, this is expected to impact cigarette unit economics in the interim.

In stage two, after the full tax pass-on, the competition between legal and illicit will be clear. There will also be a clear picture on consumer drop-outs by that time, particularly the price-sensitive consumers. This stage will be relatively more stable on account of cigarette volume and EBIT impact as compared to the first stage where volatility will be high. In this stage, product range, innovation will play a vital role in regaining the growth momentum.

First stage - Transitory phase of pricing post tax hike

- The revised taxation structure is expected to increase the aggregate tax on cigarette MRPs to 60-65%, one of the sharpest tax hikes historically. Based on our estimates, ITC may require a cumulative MRP hike of more than 35% across its portfolio to remain EBIT neutral (based on old volume mix).
- This steep revision comes after nearly eight years (2018-2025) of a relatively stable taxation regime (post GST), during which ITC delivered a healthy 4-5% cigarette volume CAGR.
- ITC has adopted a calibrated pricing strategy to focus on protecting market share rather than fully passing on tax hikes immediately. Unlike history, where full price hikes were immediate after tax increase, ITC has been following up with steady increases to avoid losing market share to illegal players.
- Besides gradual hikes, ITC is taking a portfolio-wide approach, launching high-length brands into low lengths to maintain the same consumer price for brands. ITC has launched a 74mm version for its key 84mm brands like Ultra Mild, Ice Burst, etc. for INR17.5 per stick. Similarly, Gold Flake Premium is launched in 64mm as well, which was earlier in 69mm only, to retain the price of INR9.5/stick for customers.

Exhibit 1: Change in cigarette taxation – higher BED and GST rates, while ad valorem has been removed

Segment	Length	GST	Earlier tax structure			Current tax structure			
			BED per 1000 stick	NCCD per 1000 stick	Ad Valorem Cess	GST (on MRP)	BED per 1000 stick	NCCD per 1000 stick	Ad Valorem Cess
KSFT	84mm	28%	4,170	850	36%	40%	8,500	850	NA
LSFT	74mm	28%	3,680	630	5%	40%	5,400	630	NA
RSFT	69mm	28%	2,750	510	5%	40%	4,000	510	NA
DSFT	64mm	28%	2,076	510	5%	40%	2,100	510	NA

Source: GOI, MOFSL

Exhibit 2: Earlier cigarette tax structure: Total tax on MRP was ~54% (average of segments)

(per stick)	DSFT Up to 65mm	RSFT 66 to 69mm	LSFT 70 to 74mm	KSFT Others (>75mm)
MRP	7	9	10	17
Gross Realization	3	4	4	7
Net Realization	3	3	4	6
Total tax	4	5	6	9
Tax on MRP	52%	53%	57%	56%

Source: MOFSL

Exhibit 3: Current total tax on MRP stands at ~65% (average of segments)

(per stick)	DSFT Up to 65mm	RSFT 66 to 69mm	LSFT 70 to 74mm	KSFT Others (>75mm)
MRP	8	12	15	24
Gross Realization	3	4	4	7
Net Realization	3	3	4	6
Total tax	5	8	10	16
Tax on MRP	60%	67%	70%	68%
Tax increase post GST 2.0	36%	75%	80%	70%
MRP require for neutral	19%	40%	45%	39%

Source: MOFSL

Exhibit 4: ITC has witnessed ~64% increase in tax and will have to take ~35% hike in MRP to entirely pass on tax hikes (at company level, old mix)

Cigarette Type	Weightage for ITC (est.)	Increase in tax	Weighted increase in tax	Increase in MRP	Weighted increase in MRP
DSFT	28%	36%	10%	19%	5%
RSFT	33%	75%	25%	40%	13%
LSFT	13%	80%	10%	45%	6%
KSFT	26%	70%	18%	39%	10%
			64%		35%

Source: MOFSL

Recent pricing and portfolio expansion

- Our analysis of ~50 cigarette brands across companies and segments indicates that ITC has adopted a calibrated pricing strategy after the latest tax hike, prioritizing market share protection over immediate EBIT neutrality. Unlike historical trends of fully passing on tax increases, this steep hike and high competitive intensity from Godfrey Phillips India (GPI) have led to more measured price hikes. We believe ITC is consciously sacrificing near-term margins to avoid downtrading risks and protect its market share.
- In KSFT, ITC has implemented sharp price hikes of ~40% across most brands, though select ITC brands such as Classic Icon and Classic Connect have seen only ~30% hikes so far. Meanwhile, the Slims segment has seen steep ~80% price hikes as companies factored in high taxes and withdrew aggressive discounting.
- In the more price-sensitive RSFT and DSFT segments, price hikes remain below the required levels. RSFT hikes are currently in the 15-20% range vs. the required ~41%, while DSFT has seen ~15% hikes against the required ~20%, with some brands witnessing no hikes at all.

- We observed that manufacturers are resorting to cigarette length reduction to absorb higher taxes while maintaining key price points. GPI has introduced a 74mm variant of Stellar Shift Pro at INR13.5/stick, while ITC has launched 74mm variants of Ultra Mild and Ice Burst in Maharashtra at INR17.5/stick.

Exhibit 5: MRP revision (%) across key brands taken so far vs the MRP change (%) required to pass on the entire increase in tax

Company	Brands	Length (mm)	Earlier price per stick	Current price per stick	Price Change (%)	MRP change required post new taxation (%)
ITC	Gold Flake Superstar	64	6.0	7.9	32%	20%
ITC	Capstan clove	64	8.0	9.9	24%	
ITC	NC refreshing mint	64	5.9	5.9	0%	
ITC	Wave Boss refined taste	64	6.0	6.0	0%	
GPI	Cavanders Gold	64	4.8	5.8	21%	
GPI	CVGL special 64	64	5.0	6.0	20%	
GPI	Focus mint up	64	5.1	6.0	18%	
GPI	R&W FT Original	64	6.0	6.0	0%	
ITC	Gold Flake Smart	69	9.5	9.5	0%	
ITC	Wave	69	6.0	6.0	0%	
ITC	Classic Verve	69	15.0	19.5	30%	40%
ITC	Gold Flake Indie mint	69	10.0	11.5	15%	
ITC	Gold Flake Premium	69	10.0	13.5	35%	
ITC	Player's magic mix	69	8.0	10.8	35%	
GPI	Four Square Prince	69	5.0	5.0	0%	
GPI	Four Square clove crush	69	9.0	10.5	17%	
GPI	Four Square crush tropical mix	69	9.0	11.8	31%	
GPI	R&W FT Original	69	5.5	6.0	9%	
GPI	Marlboro Advance Compact	69	9.5	11.5	21%	
ITC	Classic Ice Burst	74		17.5	NA	
GPI	Stellar Shift Pro	74		13.5	NA	
ITC	Gold Flake King Blue	84	17.0	24.0	41%	40%
ITC	Gold Flake King Mixpod	84	17.0	24.0	41%	
ITC	Gold Flake King Red	84	17.0	24.0	41%	
ITC	Classic Connect	84	15.0	19.5	30%	
ITC	Classic Double Burst	84	17.0	24.0	41%	
ITC	Classic Ice Burst	84	17.0	24.0	41%	
ITC	Gold Flake Kings Red longs	84	17.5	24.0	37%	
ITC	Gold Flake Kings Blue longs	84	17.5	24.0	37%	
ITC	Benson & Hedges Gold Blue	84	17.0	24.0	41%	
ITC	Classic RefT Sleeks	84	17.0	24.0	41%	
GPI	Full flavour	84	17.0	24.0	41%	
GPI	Advance	84	17.0	24.0	41%	
GPI	Gold	84	17.0	24.0	41%	
GPI	Fuse Beyond	84	17.0	24.0	41%	
GPI	Clove mix	84	17.0	24.0	41%	
GPI	Marlboro Forest Fusion mint	84	17.0	24.0	41%	
BAT	Dunhill Switch (online)	84	26.5	34.0	28%	
BAT	Dunhill International (online)	84	26.5	34.0	28%	
ITC	American Club lit	97	10.0	18.0	80%	
ITC	American Club N.Y. cool sleeks	97	10.0	18.0	80%	
GPI	Stellar Shift duos	97	12.0	19.5	63%	
GPI	Stellar Define	97	10.0	18.0	80%	
GPI	SSS (shift)	97	12.0	19.0	58%	
GPI	SSS (paan)	97	10.0	18.0	80%	
Kedara Trading	Esse Black	97	14.0	14.0	0%	
Kedara Trading	Esse Special Gold	97	15.0	15.0	0%	

Source: MOFSL

Channel checks indicate cautious pricing actions amid downtrading risks

- Despite the revised tax being implemented from Feb’26 onward, old inventory continued to be sold through April and May in select regions. Our channel checks also suggest retailers are selling old stock at revised MRPs, aiding near-term trade profitability for them.
- Channel partners highlighted higher stress in the King Size segment, where high per-stick prices (~INR24) are driving consumers toward relatively affordable compact variants such as Classic Connect (~INR20/stick). However, loyal consumers of established brands such as Gold Flake Premium (GFP) and Marlboro Advance Compact continue to display relatively sticky consumption behavior.
- Our checks indicate ITC has further increased prices in the 69mm segment, effective May’26, revising Gold Flake Premium MRP to INR135 from INR115, with the hike gradually being rolled out nationally.
- To manage higher taxes while retaining key price points, manufacturers are also reducing cigarette lengths. GPI has transitioned its Four Square Clove Crush from 69mm to 64mm at INR85/pack, while also launching a new 74mm variant of Stellar Shift Pro at INR13.5/stick. Similarly, ITC has introduced 74mm variants of Ultra Mild and Ice Burst at INR17.5/stick.
- Meanwhile, illicit brands have not implemented any MRP or retailer margin changes, increasing competitive pressure at lower price points. We also observed materially higher pricing for international brands such as Dunhill and Davidoff on quick-commerce platforms versus general trade channels.
- Our checks also indicated that, the extreme summer season also weighs on daily consumption, thereby impacting overall demand in April-June. The cigarette industry typically sees its peak season from August through February.

Weak unit economics in transitional stage

- With delay in full tax pass-on, we see this interim phase would impact unit economics for cigarette business for ITC. The company is focusing on stability in pricing for consumers but it is expected to impact profitability for the portfolio where price hike is insufficient.
- Considering pricing is ongoing, there is a possibility that required price hike to reach neutral level (full tax pass-on) may go beyond 1QFY27 as well.
- In this interim phase, we see the possibility of a sharp change in product mix, driven by new product launches, downtrading, gradual price hike and trade pre-buying. Primary and secondary demand trends may sustain divergence in this transitional stage. Steady pricing will impact net realization/stick of cigarettes, which would impact EBIT/stick.

Exhibit 6: ITC EBIT/cigarette contraction during stage first (possible EBIT dip of 25%)

Based on price hike as on date	DSFT	RSFT	LSFT	KSFT	Company level
MRP currently (our est.)	8	12	14	24	
MRP required (for EBIT neutral)	8	12	15	24	
Current price gap to impact EBIT	0.4	0.3	0.5	0.1	
EBIT per stick (our est.)	1	2	2	4	2
EBIT per stick impact in first stage	-29%	-14%	-25%	-2%	-17%

Source: MOFSL

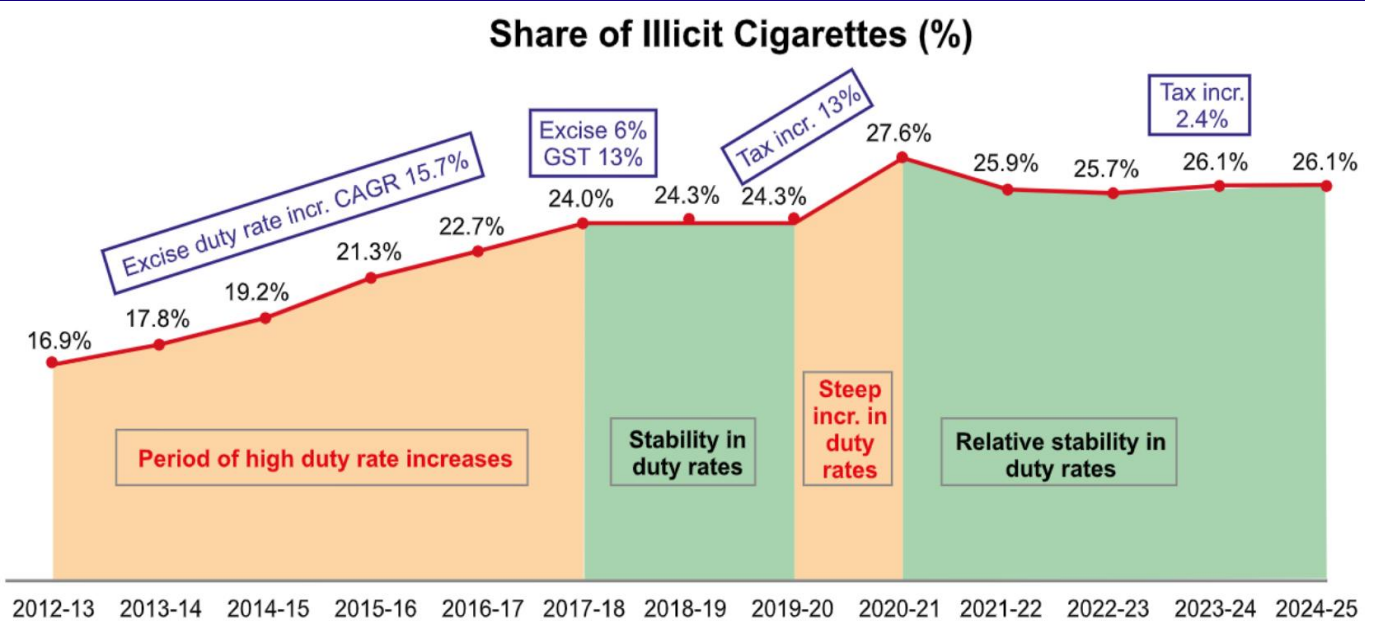
Second stage – Tax neutral, illegal share gain will be watchful

- After the full tax pass-on, it will be critical to see portfolio change, share gain to illegal, downtrading, etc. Given price hike quantum is unprecedented, it is difficult to assess the deceleration in industry volumes, consumer drop-outs to illegal brands, and product mix change.
- The illicit cigarette industry saw strong gains during 2012-2021, with almost 1,000bp gain in volume mix to ~28%. Stable taxes during 2021-2025 had impacted illegal brands; there was a 150bp fall in illegal market during this period. However, with the recent price hike, there is a significant price gap between legal and illegal brands. Given the historical learnings, it will impact legal industry cigarette volume.
- We model 15% revenue decline with 10% volume contraction in FY27 and 19% dip in EBIT in the cigarette business.

Illicit cigarettes gain market share during steep tax hike phases

- The cigarette industry has seen stable taxes for the last five years, leading to competitive pricing vs. illicit cigarettes. The illicit cigarette industry saw sharp gains during 2012-2021, with almost 1,000bp gain to ~28% volume mix. However, it has contracted during 2021-2025 by ~150bp to 26%. This supported the legal cigarette makers. ITC delivered healthy ~5% volume growth during this period.
- Globally, the illicit cigarette market contributes ~10% of total volumes, compared to ~26% in India (up from 17% in 2013), making India the fourth largest illicit cigarette market in the world.
- We believe the recent steep tax hike will make illicit brands more competitive, particularly with this high price arbitrage. While the extent of increase in share of illicit cigarettes remains difficult to quantify, we are certain of its share increasing and downtrading happening in the cigarette space. Overall, this remains a negative development for ITC.

Exhibit 7: Illicit cigarette market share amid stable taxation scenario was ~26%



Source: TII, MOFSL

Volume and EBIT to remain under pressure in FY27

- Historically, ITC has taken immediate price increases to stay EBIT-neutral. However, given the steep tax increase this time, this approach is unlikely.
- ITC has so far implemented price hikes selectively across its portfolio. We expect further clarity on the full extent of pricing actions in the next few months. We expect the company to pass on a large part of the tax increase in LSFT and KSFT segments, where pricing power remains relatively stronger. However, in the highly competitive DSFT and RSFT segments, ITC is likely to absorb a portion of the tax impact to defend volumes and market share against rising competition from other legal and illicit cigarette players.
- Our sensitivity analysis suggests that if ITC fully passes on the tax hike to remain EBIT neutral, the sharp increase in cigarette prices could materially impact volumes in FY27E. Under the scenario of 5%/10%/15%/20% volume decline, cigarette EBIT could decline by ~7%/~15%/~22%/~30%, implying earnings sensitivity of ~1.5x to volume contraction. This highlights the difficult trade-off between preserving margins through aggressive price hikes and protecting market share amid elevated downtrading and illicit trade risks.

Exhibit 8: ITC’s cigarette volume and EBIT sensitivity analysis in stage two (without mix change)

Post entire price hike (up to neutral)				
Volume growth in FY27E	-5%	-10%	-15%	-20%
EBIT growth in FY27E	-7%	-15%	-22%	-30%
Sensitivity	1.5x	1.5x	1.5x	1.5x

Source: MOFSL

Sharp cigarette tax hikes historically weighed on ITC volumes

- Historically, steep increases in cigarette taxation have led to volume declines ranging from low single digits to low double digits for ITC.
- In FY11, a ~16% tax hike resulted in a 3% YoY decline in cigarette volumes. Similarly, in FY21, a ~10% tax increase led to a sharper 12% decline in volumes.
- The FY13-FY21 period witnessed high tax increases (except during FY19-20), adversely impacting the price competitiveness of legal cigarettes vs. illicit products. Despite the challenging environment and volume pressure, ITC navigated the period effectively by protecting market share and delivering positive EBIT growth.
- With the steepest tax hike to date (60-65%), we expect a meaningful decline in ITC’s cigarette volumes in FY27 (-10%). We build a negative ~5% CAGR in volume over FY26-28E. Going forward, the trajectory of volumes, market share, and profitability remain key monitorable.

Exhibit 9: Historical cigarette tax trend – Both volumes and EBIT took a hit during tax increase phases

Cigarette Tax Increase	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 (GST)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Effective tax increase (%)	16	0	22	18	20	19	10	20	0	0	10	0	0	2	0	0	60+
Cigarette Vol Growth (%)	-3	2	1	-3	-9	-9	1	-3	6	0	-12	16	18	3	4	6	-10
Cigarette Rev Growth (%)	16	17	13	11	9	4	5	5	10	9	-12	30	20	8	7	13	-15
Cigarette EBIT Growth (%)	17	20	21	20	12	5	6	7	9	2	-9	17	20	6	5	5	-19

Source: Company, MOFSL

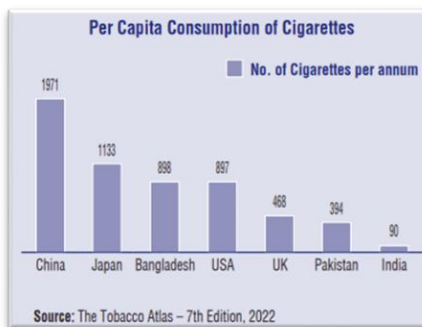
Centre’s tax collections are relatively higher during stable taxes phase

- Similar to the alcobev segment, a stable tax regime leads to better revenue/ volume growth for cigarettes. Historically, steep increases in taxation have adversely impacted tax collections and legal cigarette volumes, while a stable tax regime has led to buoyancy in tax collections.
- Between FY13-FY17, central excise duty increased at 15.7% CAGR while tax revenues from cigarettes rose mere 4.7% CAGR. However, in the brief period of stable tax regime (April 2018 to January 2020), the tax collection grew ~10%. ITC’s cigarette volumes declined 4% (average) during FY13-17. Similarly, the tax revenue collections give at 16% CAGR over FY21-23 amidst stable taxes.

Exhibit 10: Tax revenue collections have been higher in stable tax rate phase

Period	Increase in Tax Rate	Increase in Tax Revenue Collection
FY13 to FY17 (CAGR)	15.7%	4.7%
Apr 2018 to Jan 2020 over Jul 2017 to Mar 2018	-	10.2%
Oct 2002 to Mar 2021 over Aug 2019 to Jan 2020	13.0%	1.8%
FY 2020-21 to 2022-23 (CAGR)	-	16.0%

Source: Company, MOFSL



India legal cigarettes account for ~10% of overall tobacco consumption

- Over the last three decades, the legal cigarettes share in total tobacco consumption in India has declined from 21% in 1981-82 to 10% in 2023-24. During the same period, the overall tobacco consumption in the country has increased by 49% as per TII. This drop in legal cigarettes is reflected in the shift to illegal cigarettes and tax-inefficient tobacco products.
- The remaining 90% consumption is in the form of 29 tax-inefficient tobacco products such as bidis, chewing tobacco, etc. and illegal cigarettes. This is unlike the rest of the world, where tobacco is synonymous with cigarettes representing 90% of tobacco consumption.
- As per TII, despite just 10% share of the tobacco consumption, the government collects 80% of tobacco tax revenue from legal cigarettes.

Exhibit 11: Types of Tobacco consumption available in India

Smoking	Smokeless	Smokeless
Legal Cigarettes	Paan Betel Quid with Tobacco	Kharra
Illegal / Smuggled Cigarettes	Khaini	Kiwam
Bidis	Chewing Tobacco	Dohra
Cigars	Gutkha	Gudakhu
Hookah	Zarda	Naswar / Nass
Chutta	Loose Leaf/Sada pata	Creamy Snuff
Dhumti	Paan Masala	Tuibur/ Hidakphu / Tobacco Water
Chillum	Mishri	Mainpuri / Kapoori
Pipe	Mawa	Red Tooth Powder / Toothpaste (tobacco)
Cheroot	Gul	
	Bajjar	
	Snuff	

Source: TII

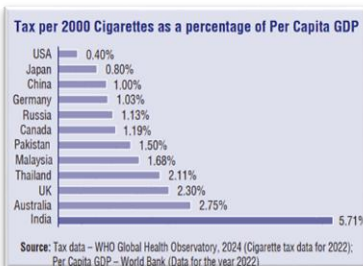
ITC stock price remained muted during high taxation phases

- The 2013-2021 period was a phase of high tax increases, which impacted the price competitiveness as compared to illicit brands. ITC managed the phase well and protected its market share and delivered positive EBIT growth during that period. However, the stock remained under pressure.
- Amid broadly stable tax phase, ITC almost doubled.
- We do note that the quantum of the tax hike has never been this steep historically. Moreover, ITC has been facing steep competition from GPI in select regions. Thus, ITC seems to have resorted to a more cautious approach in taking price hikes while taking a short-term hit on its EBIT margins. ITC is prioritizing defending its market share at the cost of profitability. We believe this will weigh on its stock performance in the near term.

Exhibit 12: Stock price remained under pressure during high-tax phases while performed well during stable-tax phase

Cigarette	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 (GST)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Tax Increase	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Effective tax increase (%)	16	0	22	18	20	19	10	20	0	0	10	0	0	2	0	0	60+
Stock Price (Avg)	103	129	174	208	222	205	234	262	271	235	183	207	307	416	440	407	
Stock Price Change (%)	41	25	35	20	7	-8	14	12	3	-13	-22	13	48	36	6	-8	
Tax Increase vs Stock	High-tax period - Stock flat during this period								Stable tax period - Stock up 2x during this period					Steep hike			

Source: Company, MOFSL



India taxation on cigarettes is nearing WHO guidelines

- Tobacco taxes are the most cost-effective way to reduce tobacco use, especially among youth and low-income groups. A tax hike that increases tobacco prices by 10% decreases tobacco consumption by ~4% in high-income countries and ~5% in low- and middle-income countries, as per the World Health Organization (WHO).
- The WHO’s MPOWER framework is primarily a public health policy framework and recommendation system designed to help countries implement the legally binding treaty. That said, it is not a legally enforceable global law. **MPOWER** is a set of six evidence-based strategies developed by the WHO: **M**onitor **P**rotect **O**ffer, **W**arn, **E**nforce and **R**aise.
- Till Feb’26, India’s total taxation on cigarettes was ~54% of MRP, well below the WHO’s recommended benchmark of 75% or more to significantly curb consumption. After the recent tax hike, we believe the total taxation on cigarettes to be 60-65% of MRP.
- In comparison, countries such as Qatar, the UK and Australia impose taxation exceeding 80%+, while nations Sri Lanka, Thailand and New Zealand maintain levels above 75%. Several middle-income countries have also moved closer to these benchmarks.

Exhibit 13: Countries at or above WHO's 75% tax-to-MRP guideline

Country	Cigarette tax as % of MRP
Qatar	~100%
Portugal	~81%
Romania	~81%
France	~80%+
United Kingdom	78-80%
Spain	~80%
Australia	~80%
Belgium	~80%
Poland	~80%
Slovakia	~80%
Ireland	~79%
Brazil	~79%
Sweden	~78%
Thailand	~78%
Italy	~77%
Hungary	~76%
Israel	~76%
Sri Lanka	~76%
New Zealand	~76%

Source: WHO

Exhibit 14: Countries still below WHO guideline (<75% of MRP)

Country	Cigarette tax as % of MRP
South Korea	~74%
Bangladesh	~73%
Singapore	~70%
Philippines	~70%
India #	60-65%
Germany	65-70%
Japan	~63%
Indonesia	~63%
Malaysia	<60%
Russia	~55%
China	50-55%
South Africa	~45%
Pakistan	~45%
United States	40-45%
Vietnam	~38%

Source: WHO

India post Feb 2026, rest as of 2025

WHO's MPOWER guidelines

The WHO Framework Convention on Tobacco Control (WHO FCTC) and its guidelines provide the foundation for countries to implement and manage tobacco control. To enable that, WHO introduced the MPOWER measures. These measures are intended to assist in the country-level implementation of effective interventions to reduce the demand for tobacco.

Exhibit 15: To curb Tobacco consumption, WHO has put MPOWER measures in place

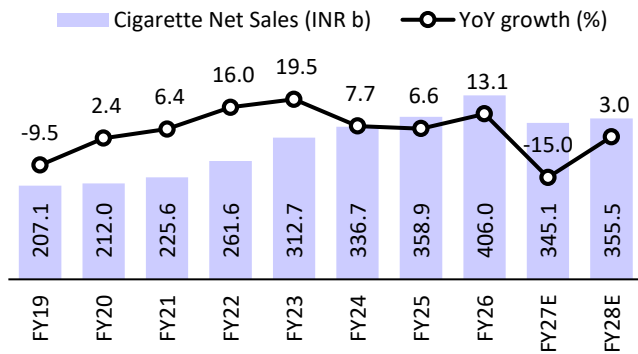
Framework	Current stage of implementation in India
❖ Monitor tobacco use and prevention policies	❖ Illicit cigarettes have market share of ~26%; taking measures to curb them
❖ Protect people from tobacco smoke with smoke-free laws	❖ Fine on public smoking
❖ Offer help to quit tobacco use	❖ Toll free helpline number rolled pan India; awareness campaigns
❖ Warn about the dangers of tobacco with pack labels and media campaigns	❖ Pictorial warning in place covering 85% of the box
❖ Enforce bans on tobacco advertising, promotion, and sponsorship	❖ India prohibits the advertisement and display of tobacco products across all forms of media
❖ Raise taxes on tobacco to make it less affordable	❖ Raised from ~53% of total MRP to 60-65% of total MRP

Source: WHO, MOFSL

We build an EBIT decline of 19% in FY27 for cigarette business

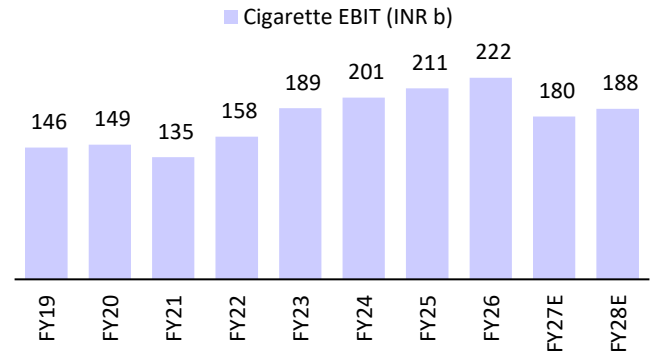
- ITC's cigarette business EBIT remains a key variable for ITC's earnings.
- ITC delivered a ~4% volume CAGR over 2018-25; however, recent tax hikes are likely to weigh on near-term volume momentum, keeping growth subdued. We expect cigarette volume to decline -10% in FY27E and to remain flat in FY28E.
- On EBIT front, the high price differential post tax increase constrains pricing flexibility, making it challenging to drive earnings growth. We model 19% EBIT contraction in FY27. We therefore model a negative EBIT CAGR of ~8% for the cigarette segment over FY26-28E.

Exhibit 16: ITC's cigarette sales growth



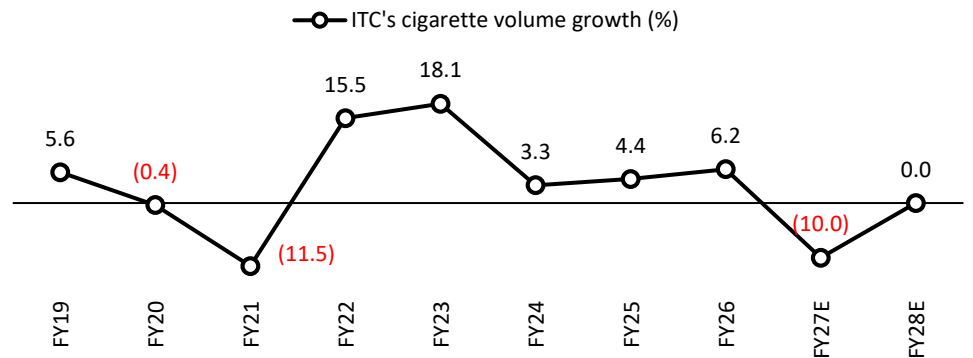
Source: Company, MOFSL

Exhibit 17: Cigarette EBIT delivered 6% CAGR over FY19-26; we expect it decline 8% over FY26-28E



Source: Company, MOFSL

Exhibit 18: ITC's cigarette volume growth trajectory, we expect 10% decline in FY27



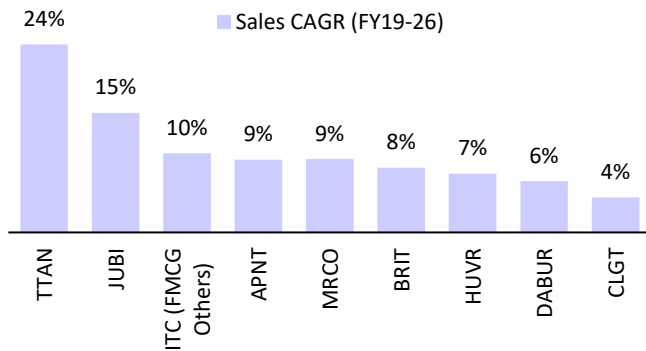
Source: Company, MOFSL

FMCG-Other business: Operating metrics continue to optimize

- ITC's FMCG-Others segment is the second-largest contributor to ITC's revenue, has demonstrated consistent double-digit growth alongside steady margin expansion, outperforming most staples peers despite a challenging demand environment.
- The FMCG portfolio spans five key clusters – Foods (core growth engine), Personal Care, Education & Stationery, Agarbatti, and Health & Hygiene. Within Foods, the business is anchored by four scaled franchises, Aashirvaad, Sunfeast, Bingo!, and Yippee!. Each of these four brands has crossed or is nearing INR20-50b in consumer spending, reflecting strong brand-building and category depth.
- That said, the Personal Care segment remains a relative weak spot. Brands such as Fiamo have carved out a niche in the mid-premium segment and Engage has delivered reasonable traction in deodorants. However, the overall portfolio performance continues to be inferior to its peers like HUL, MRCO, and Emami. We believe continued A&P investments without the revenue scale-up can drag down the segment's profitability.
- Growth momentum has been robust, with FMCG Others delivering a revenue CAGR of 10% over FY19-26, and we expect a similar CAGR over FY26-28E. With revenue at INR243b in FY26, ITC's FMCG segment is the fourth-largest FMCG business in our coverage universe, behind Titan, HUL and Asian Paints.
- In line with the ITC Next strategy of building a future-ready portfolio, accelerating growth and enhancing competitiveness, the company has in recent

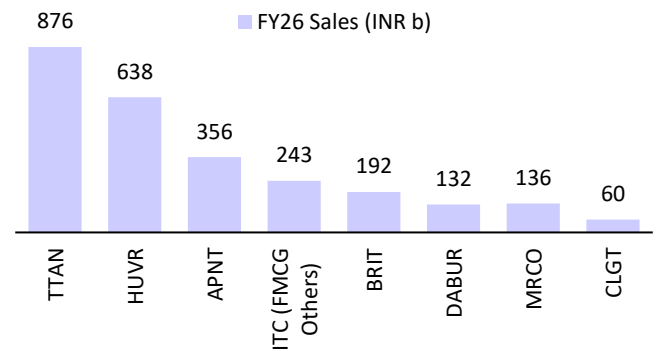
times undertaken several value-accretive acquisitions in the digital-first and organic space, including 24 Mantra Organic Foods, Yogabar, Mother Sparsh, Prasuma & Meatigo, which delivered robust growth of ~60% in FY26 and together are clocking ARR of over INR13.5b.

Exhibit 19: Highest sales CAGR over FY19-26 among FMCG peers (update)



Source: Company, MOFSL

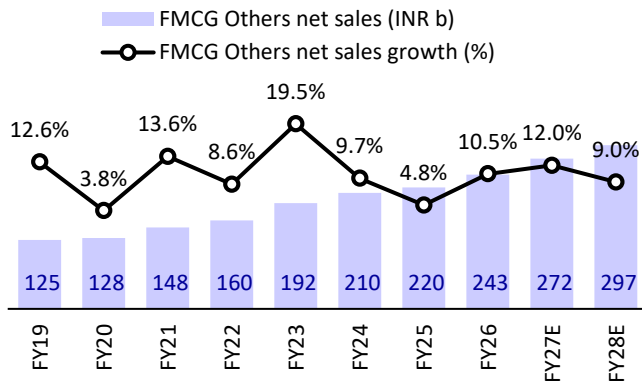
Exhibit 20: ITC's FMCG-others is the fourth largest in consumer space in terms of revenue



Source: Company, MOFSL

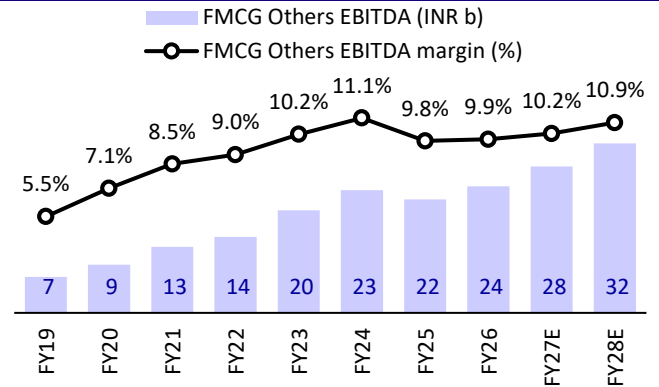
- Importantly, over the years, margin delivery has remained resilient despite high commodity cost pressure, in contrast to peers. EBIT margins have continued to expand, supported by structural levers such as:
 - Scale benefits and operating leverage
 - Premiumization across categories
 - Supply chain efficiencies via ICML facilities (Integrated Consumer Goods Manufacturing & Logistics)
 - Continued cost optimization measures
- As a result of above-mentioned initiatives, EBITDA margins have expanded meaningfully from 5.5% in FY19 to 10% in FY26, underscoring improving business quality.
- On the distribution front, ITC has over time strengthened its total reach to ~7m, one of the highest among FMCG companies. This expansion is strategically important, as the cigarette distribution channel dynamics are different compared to packaged foods.
- Moreover, ITC has been an early and meaningful beneficiary of the quick commerce ecosystem, with strong traction seen across platforms. Digital and MT channels together contribute ~34% of segment sales. Its core food brands, namely Bingo!, Aashirvaad, and Sunfeast, feature among high-velocity SKUs on these platforms, enhancing demand visibility, improving inventory turns, and enabling faster, data-driven new product development cycles.

Exhibit 21: FMCG-Others revenue saw 10% CAGR in FY19-26



Source: Company, MOFSL

Exhibit 22: The segment has seen robust margin expansion

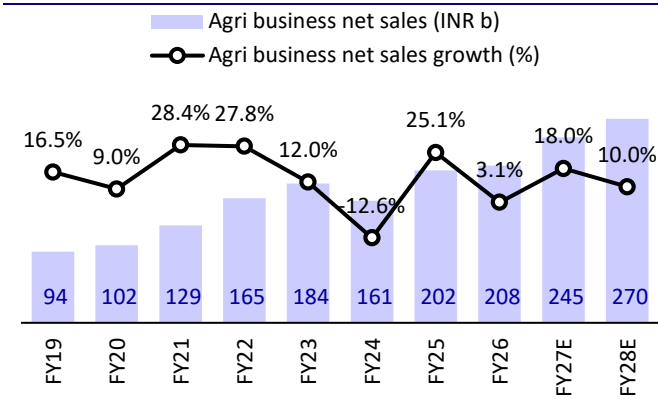


Source: Company, MOFSL

Agri business: Scaling value-added portfolio with structural export strength

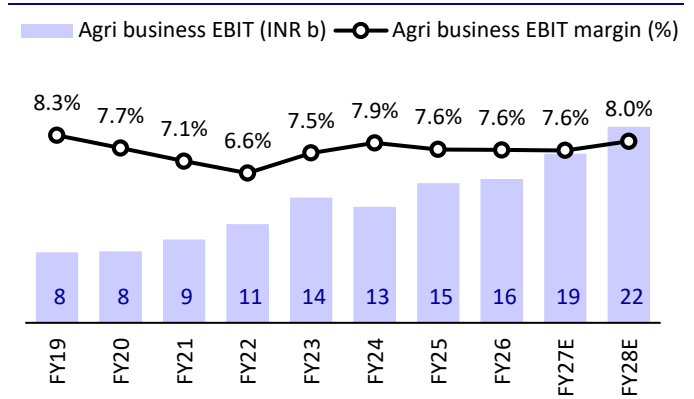
- ITC’s agri business has scaled up meaningfully, with annual throughput exceeding 3.5m tons across 22 states and participation in 20+ agri value chains. The segment is strategically pivoting toward accelerating growth in its value-added agri products (VAAP) portfolio, spanning spices, coffee, frozen marine products, and processed fruits.
- The segment has delivered a strong revenue CAGR of 12% over FY19-26, led by leaf tobacco and value-added products. FY26 was impacted by geopolitical disruptions (such as US tariffs and regional conflicts) and domestic regulatory measures, including stock limits and export restrictions on key agri commodities. Over FY26-28E, we model ~14% revenue CAGR and stable EBIT margins of 7.5%.
- ITC retains its leadership in global tobacco exports, supported by deep crop development expertise and strong customer linkages. Despite high procurement costs, margins expanded on the back of improved grade mix and adoption of digital procurement platforms. ITC is also among India’s leading exporters of value-added frozen marine products, with advanced capabilities in raw and cooked segments, catering to stringent markets such as the US, EU, and Japan.
- VAAP portfolio remains a key growth lever with increasing contribution from high-margin categories such as spices, coffee, marine products, and medicinal plant extracts. Growth is supported by investments in processing infrastructure, including the Guntur spices facility, and favorable global dynamics in coffee.
- On the digital front, ITC’s ITCMAARS platform continues to strengthen ecosystem linkages, covering over 2.3m farmers and 2,100+ FPOs across 11 states, offering AI-led advisory, crop monitoring, and market access.
- Additionally, through its subsidiary ITC IndiVision, the company manufactures and exports nicotine and nicotine derivatives to regulated markets such as the US and EU, further diversifying its agri-linked portfolio.

Exhibit 23: Agri business has delivered revenue CAGR of 12% over FY19-26 and we expect 14% CAGR over FY26-28E



Source: Company, MOFSL

Exhibit 24: The segment has stable margins and we expect margins to remain range-bound going ahead



Source: Company, MOFSL

Paperboards, Paper and Packaging business to recover steadily

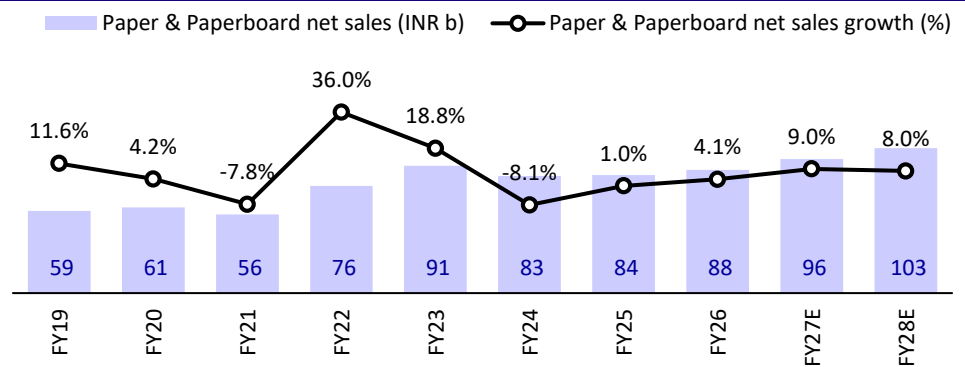
- Over FY19-26, the segment has delivered a revenue CAGR of 6% with strong growth witnessed during the Covid recovery period (+36% in FY22, +19% in FY23). The segment remains affected by weak demand and cheap supplies from China and Indonesia in global markets (including India).
- EBIT margins over FY19-24 stood at ~21% on average and dipped to 10.5% in FY25 and further to 8.6% in FY26. While EBIT declined 15% YoY in FY26 to INR7.5b due to continued high wood costs and subdued realizations given low domestic demand and cheap Chinese supplies in international markets. That said, wood prices showed signs of moderation in 2HFY26, aided by improved availability from sustained plantation and sourcing initiatives. We expect a gradual recovery ahead.
- To counter the cheap supplies, the industry has engaged with policymakers, leading to the imposition of a minimum import price (MIP) on virgin multi-layer paperboard in Aug'25 and recommendations for anti-dumping duties on supplies from China and Chile.
- ITC is rapidly scaling its sustainable paperboards and packaging solutions to replace single-use plastics. This portfolio has grown over 2.4x in the last four years. Key innovations include the 'Filo' series for food and beverages and 'Ecobyte' for safe food handling.
- Specialty Papers (Décor) segment has witnessed robust growth, bolstered by proactive capacity augmentation in the Décor paper category.
- To support long-term profitability, ITC has integrated Industry 4.0 and digital technologies across its manufacturing nodes. This includes using AI/ML for process optimization and investing in High-Pressure Recovery Boilers (HPRB) to improve energy efficiency and mitigate margin pressure.

Strategic North India entry via CPP acquisition

- ITC has announced the acquisition of the Century Pulp and Paper (CPP) undertaking from Aditya Birla Real Estate via a slump sale for a cash consideration of up to INR35b. The transaction is aligned with the company's ITC Next strategy.

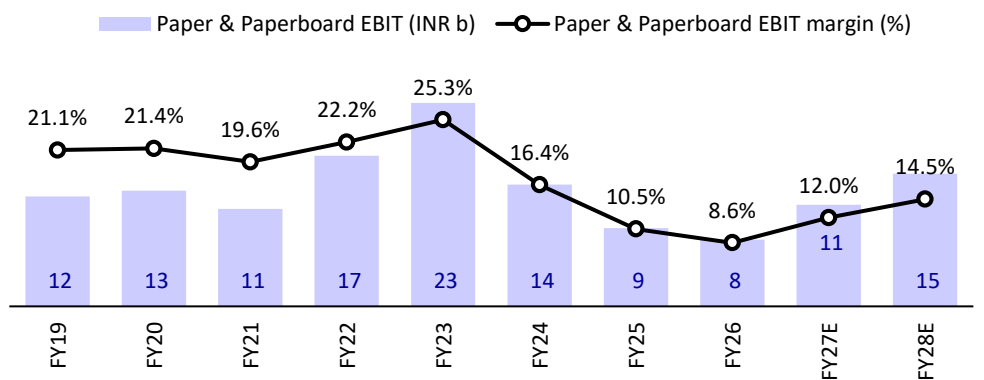
- CPP, with an installed capacity of ~480k MTPA and FY25 revenue of INR31.48b, provides ITC with a strategic manufacturing footprint in North India, complementing its largely South-based operations.
- The acquisition addresses capacity constraints at ITC’s Bhadrachalam facility while offering faster scale-up vs. greenfield expansion and enhancing supply chain proximity to key northern markets.
- Strategically, the deal strengthens ITC’s multi-location manufacturing capabilities, improving operational resilience and raw material access.
- Management expects meaningful value unlocking through operational efficiencies (digital/TPM), procurement synergies, and product mix optimization.
- The company believes the acquisition to be EPS accretive in the first full year, with EBITDA/ton targeted to rise 30-40% over two years and medium-term ROCE expected in the high-teens.

Exhibit 25: Paper business has delivered revenue CAGR of 6% over FY19-26; we expect 8% CAGR over FY26-28E



Source: Company, MOFSL

Exhibit 26: The segment witnessed margin contraction in last couple of years; we expect a gradual recovery ahead



Source: Company, MOFSL; *We have not incorporated CPP into our numbers yet

FoodTech business – a new vector of growth

- FoodTech Business, a new vector of growth envisioned in the ITC Next strategy, leverages the company's institutional strengths in food science & manufacturing, FMCG food brands, and culinary expertise to tap into the fast-growing online food services segment.
- The initiative has scaled up rapidly in a capital-efficient manner since inception, setting new benchmarks in culinary innovation and tech-enabled operations.
- The business offers a diverse and expanding range of cuisines across four brands – ITC Master Chef Creations, ITC Aashirvaad Soul Creations, ITC Sunfeast Baked Creations, and Sansho by ITC Master Chef, which continue to gain strong consumer traction.
- The full-stack food-tech platform has scaled up and is being progressively rolled out across India. The business expanded its operating footprint to ~70 cloud kitchens, with 25 kitchens opened in FY26.
- Gross merchandise value doubled YoY to ~INR2.2b in FY26 from INR1.05b in FY25.

Valuation and view

- Historically, ITC has taken immediate price increases to stay EBIT-neutral. However, given the quantum of tax increase this time, this approach is unlikely.
- We expect 10% volume decline in FY27E and flat volume in FY28E in cigarette segment. Earnings pressure on cigarettes would take away near-term catalysts (improving FMCG and Paper). Valuations remain comfortable however we do not see any near-term positive catalyst.
- ITC has a full cigarette portfolio to better navigate the tax hike, but competitive pressure from illicit cigarettes will weigh on the formal cigarette industry.
- We maintain our Neutral rating on ITC with our SoTP-based TP of INR300 (implying 18x Mar'28E P/E).

Exhibit 27: SoTP valuation for ITC

Segments		FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E
Cigarette	EBITDA	51	60	71	86	103	115	120	128	136	148	152	138	161	192	204	214	226	183
	EV/EBITDA (x) - 1 Yr Fwd*	7.6	10.3	11.7	14.3	16.2	16.4	13.4	14.8	15.2	15.2	12.6	5.9	5.3	11.0	16.4	16.5	17.7	11.5
	EV	451	736	1,002	1,475	1,853	1,975	1,714	2,017	2,260	2,307	1,742	948	1,013	2,240	3,513	3,729	3,237	2,109
	Per share	44	69	92	133	164	177	157	183	206	212	171	77	105	208	312	329	291	204
FMCG	Revenue	36	45	55	70	81	90	97	105	113	125	128	147	160	191	210	231	257	285
	EV/Revenue (x) - 1 Yr Fwd	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	EV	134	166	209	243	270	292	315	340	375	385	442	480	574	631	694	771	855	855
	Per share	12	14	18	20	23	24	26	28	31	31	36	39	47	51	56	62	68	68
Hotel	Revenue	9	10	10	11	11	12	13	13	14	17	18	6	13	26	30	34		
	EBITDA	3	4	4	2	3	2	2	3	3	4	4	(3)	1	8	11	12	12	
	EV/EBITDA (x) - 1 Yr Fwd	13.0	13.5	14.5	15.0	16.0	16.5	17.0	18.0	19.0	20.0	20.0	20.0	25.0	25.0	25.0	25.0		
	EV	46	49	35	40	39	41	48	57	72	85	85	164	205	263	289	312		
Per share	4	4	3	3	3	3	4	5	6	7	7	13	17	21	23	25			
Agri	Revenue	39	47	57	72	78	84	75	83	81	94	102	126	162	182	164	177	191	206
	EBITDA	5	6	7	8	9	10	10	10	9	8	9	10	12	15	14	16	17	20
	EV/EBITDA (x) - 1 Yr Fwd	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
	EV	59	66	76	87	95	98	96	92	85	86	100	117	147	138	164	170	199	199
Per share	5	6	6	7	8	8	8	8	7	7	8	9	12	11	13	14	16	16	
Paper	Revenue	31	35	39	42	49	50	53	54	52	59	61	56	76	91	84	89	95	100
	EBITDA	9	11	12	12	12	12	12	12	13	16	17	15	21	27	18	14	13	17
	EV/EBITDA (x) - 1 Yr Fwd	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	11.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0
	EV	105	117	122	119	115	115	122	132	157	166	160	253	327	201	149	138	184	184
Per share	9	10	10	10	10	10	10	11	13	14	13	21	27	16	12	11	15	15	
ITC (consolidated)	Revenue	191	223	262	313	350	384	392	428	434	484	494	493	607	709	709	767	789	804
	EBITDA	63	74	88	109	127	138	145	154	165	184	193	170	207	257	263	264	273	244
	APAT	42	50	63	76	89	97	95	105	112	128	146	132	152	191	204	198	209	187
Stock Price and EV	EV	795	1,135	1,446	1,964	2,374	2,521	2,295	2,637	2,948	3,030	2,529	1,963	2,266	3,472	4,810	5,119	4,475	3,347
	Cash+Invest	63	73	83	98	108	148	180	205	250	292	359	290	285	343	383	387	411	450
	Mkt cap	859	1,208	1,529	2,062	2,481	2,669	2,475	2,842	3,198	3,322	2,889	2,253	2,551	3,815	5,194	5,506	4,887	3,796
	No of Shares	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	13	13	13
	CMP (Avg)	74	103	129	174	208	222	205	234	262	271	235	183	207	307	416	440	390	290
Valuation (1-Yr Fwd)	EV/Revenue (x)	3.6	4.3	4.6	5.6	6.2	6.4	5.4	6.1	6.1	6.1	5.1	3.2	3.2	4.9	6.3	6.5	5.6	3.9
	EV/EBITDA (x)	10.7	12.8	13.3	15.4	17.2	17.4	14.9	16.0	16.0	15.7	14.9	9.5	8.8	13.2	18.2	18.7	18.3	12.7
	P/E (x)	17.3	19.3	20.1	23.1	25.7	28.1	23.6	25.3	25.0	22.8	21.9	14.8	13.4	18.7	26.2	26.3	26.2	18.9

Source: Company, MOFSL; *Implied EV/EBITDA

Cigarette volume and EBIT trajectory in FY27 to remain key factors for ITC's valuation

- **Bear case: 20% revenue decline, 28% cigarette EBIT decline:** In our bear case, ITC passes through the entire tax increase, triggering a sharper-than-historical volume contraction. We believe there will be an accelerated shift to illicit cigarettes, thereby affecting ITC's volume and profitability significantly.
- **Base case: 15% revenue decline, 19% cigarette EBIT decline:** Our base case assumes a staggered price pass-through strategy, partially cushioning volume decline through product mix management and select price ladder adjustments.
- **Bull case: 8% revenue decline, 11% cigarette EBIT decline:** The bull case reflects stronger consumer acceptance of the revised cigarette prices and minimal downtrading/shift to illicit cigarettes. Price/mix improvement partially offsets the volume drag, supporting earnings.

Exhibit 28: ITC scenario analysis

Cigarette FY27	Bear Case	Base Case	Bull Case
Cig. Revenue change YoY (%)	(20)	(15)	(8)
Cig. EBIT change YoY (%)	(28)	(19)	(11)
EPS (INR) - FY28	15.7	16.4	17.3
Implied P/E (x)	16x	18x	20x
TP (INR)	250	300	350

Source: MOFSL

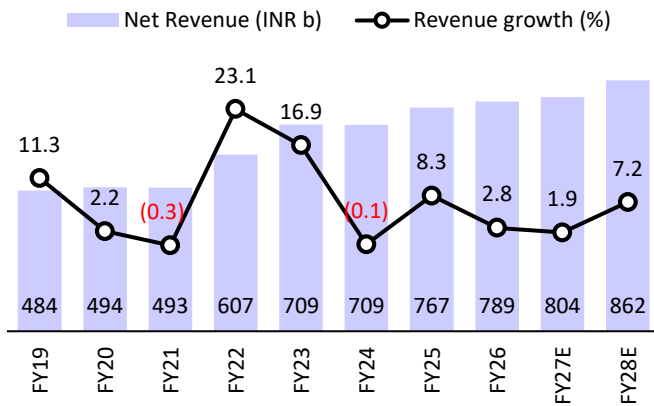
Exhibit 29: Changes in estimates

	New		Old		Change (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Sales	804.0	861.7	819.9	878.2	-1.9	-1.9
EBITDA	244.4	263.7	254.9	274.8	-4.1	-4.0
PAT	190.5	205.2	198.4	213.5	-4.0	-3.9

Source: MOFSL

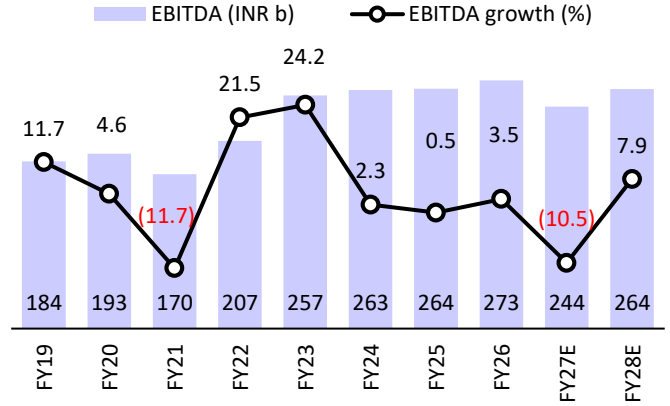
Story in charts

Exhibit 30: Net revenue to clock ~5% CAGR over FY26-28E



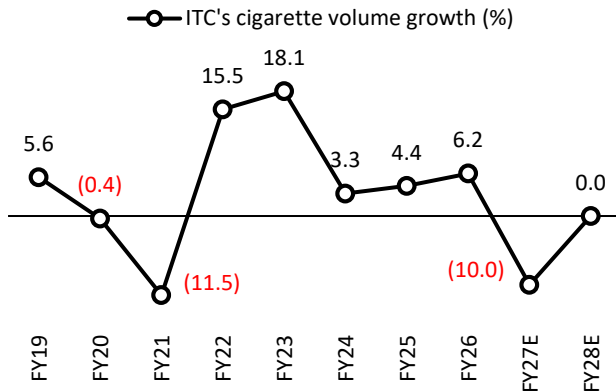
Source: Company, MOFSL

Exhibit 31: EBITDA CAGR to decline 2% over same period



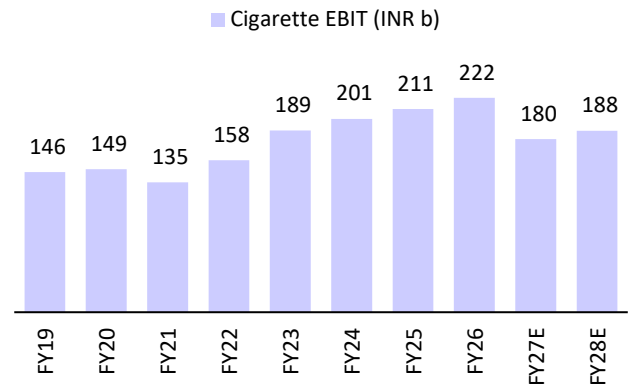
Source: Company, MOFSL

Exhibit 32: ITC's cigarette volume to decline 10% in FY27E



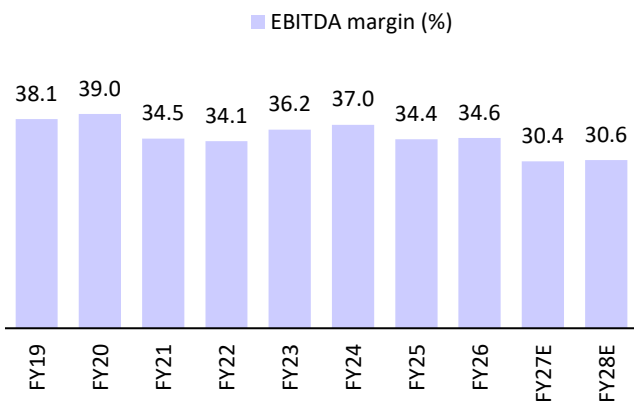
Source: Company, MOFSL

Exhibit 33: Cigarette EBIT delivered 6% CAGR over FY19-26; we expect it to decline 8% over FY26-28E



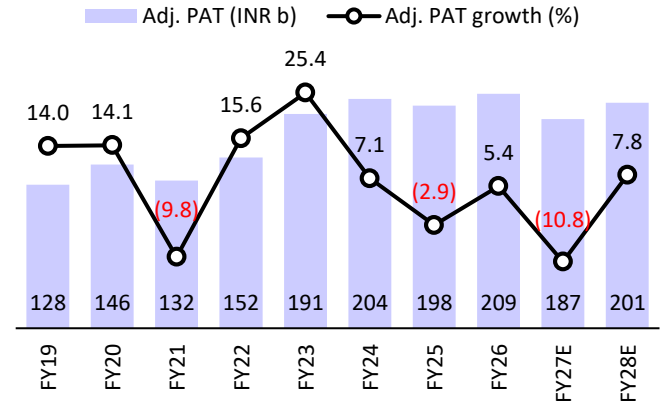
Source: Company, MOFSL

Exhibit 34: EBITDA margin is expected to remain range-bound



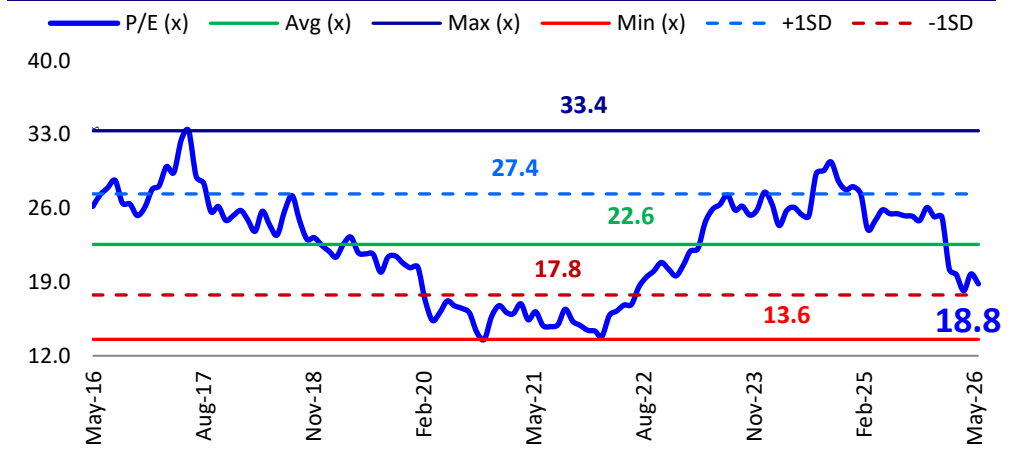
Source: Company, MOFSL

Exhibit 35: In line with EBITDA CAGR, PAT CAGR to decline 2% over FY26-28E



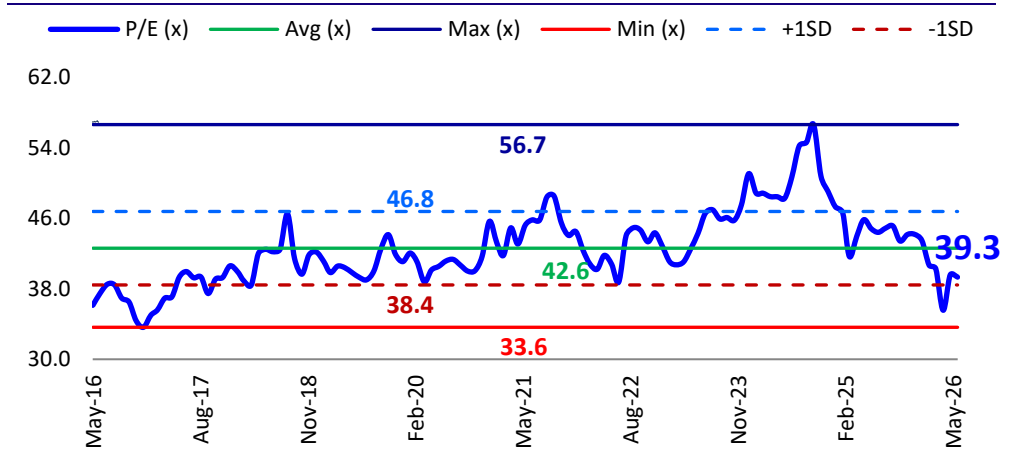
Source: Company, MOFSL

Exhibit 36: ITC P/E



Source: Bloomberg, MOFSL

Exhibit 37: Consumer P/E



Source: Bloomberg, MOFSL

Financials and valuations

Income Statement									(INR b)
Y/E March	2020	2021	2022	2023	2024	2025	2026	2027E	2028E
Net Sales	513.9	531.6	652.0	765.2	768.4	830.4	899.1	916.5	982.3
Excise duty	19.9	38.8	45.4	55.8	59.6	62.9	110.4	112.5	120.6
Total Revenue	494.0	492.7	606.7	709.4	708.8	767.5	788.7	804.0	861.7
Change (%)	2.2	-0.3	23.1	16.9	-0.1	8.3	2.8	1.9	7.2
Gross Profit	320.6	291.4	342.8	419.3	436.3	446.2	463.2	438.2	474.0
Margin (%)	64.9	59.1	56.5	59.1	61.6	58.1	58.7	54.5	55.0
Other operating expenditure	128.0	121.4	136.2	162.7	173.8	182.3	190.0	193.8	210.3
EBITDA	192.6	170.0	206.6	256.6	262.5	263.9	273.2	244.4	263.7
Change (%)	4.6	-11.7	21.5	24.2	2.3	0.5	3.5	-10.5	7.9
Margin (%)	39.0	34.5	34.1	36.2	37.0	34.4	34.6	30.4	30.6
Depreciation	16.4	16.5	17.3	18.1	18.2	18.5	17.1	18.5	19.1
Int. and Fin. Charges	0.5	0.4	0.4	0.4	0.5	0.5	0.9	0.9	1.0
Other Inc. - Recurring	26.0	26.3	18.4	19.8	27.3	25.5	24.3	25.5	26.7
Profit before Taxes	201.7	179.4	207.4	258.4	271.5	271.6	283.3	254.3	274.5
Change (%)	5.4	-11.1	15.6	24.6	5.1	0.1	4.3	-10.2	7.9
Margin (%)	40.8	36.4	34.2	36.4	38.3	35.4	35.9	31.6	31.9
Tax	48.5	44.6	53.1	64.5	61.7	69.6	70.2	64.0	69.1
Deferred Tax	-4.0	0.9	-0.7	-0.1	2.2	0.0	0.0	0.0	0.0
Tax Rate (%)	22.0	25.4	25.3	24.9	23.5	25.6	24.8	25.2	25.2
Profit after Taxes	152.6	130.4	150.4	186.3	204.3	196.9	206.9	190.5	205.2
Change (%)	22.4	-14.6	15.4	23.9	9.7	-3.6	5.1	-7.9	7.7
Margin (%)	30.9	26.5	24.8	26.3	28.8	25.7	26.2	23.7	23.8
Reported PAT	145.9	131.7	152.2	190.9	204.4	198.4	209.1	186.5	201.1
Balance Sheet									(INR b)
Y/E March	2020	2021	2022	2023	2024	2025	2026	2027E	2028E
Share Capital	12.3	12.3	12.3	12.4	12.5	12.5	12.5	12.5	12.5
Reserves	640.4	585.6	602.3	679.1	732.6	687.8	712.5	711.1	738.0
Net Worth	652.7	598.0	614.7	691.6	745.1	700.3	725.1	723.7	750.6
Loans	0.1	0.1	0.1	0.4	0.1	0.9	21.9	24.0	26.3
Deferred Liability	15.7	16.8	16.1	15.8	20.7	20.7	20.7	20.7	20.7
Capital Employed	668.5	614.8	630.8	707.7	765.9	721.9	767.6	768.3	797.6
Gross Block	364.2	396.5	423.4	457.6	476.6	436.3	463.8	494.7	525.6
Less: Accum. Depn.	147.0	163.5	180.8	198.9	217.1	216.7	238.4	256.9	276.0
Net Fixed Assets	217.2	233.1	242.6	258.7	278.3	219.6	225.5	237.8	249.6
Capital WIP	32.5	40.0	32.0	29.8	28.5	10.9	15.0	12.0	9.6
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments	286.6	248.7	248.4	294.2	311.1	347.2	381.3	396.3	411.3
Current	179.5	148.5	122.6	172.3	129.4	162.9	207.5	222.5	237.5
Non-current	107.2	100.2	125.8	121.8	181.7	184.3	173.8	173.8	173.8
Curr. Assets, L&A	236.8	210.3	239.1	275.6	299.6	298.1	306.0	310.0	334.0
Inventory	89.7	104.0	108.6	117.7	141.5	156.4	186.2	157.8	167.8
Account Receivables	25.6	25.0	24.6	29.6	40.3	47.2	39.2	45.8	49.1
Cash and Bank Balance	72.8	41.1	36.6	48.8	72.2	40.1	30.1	53.5	61.5
Others	48.7	40.2	69.2	79.5	45.6	54.4	50.4	53.0	55.6
Curr. Liab. and Prov.	100.8	113.8	127.6	146.8	147.8	150.2	156.4	180.4	195.1
Account Payables	36.3	43.2	44.2	46.6	48.0	48.1	56.4	58.3	62.5
Other Liabilities	59.9	65.3	75.7	98.6	98.2	100.8	95.1	120.3	130.6
Net Current Assets	136.0	96.5	111.5	128.8	151.8	147.9	149.6	129.7	138.9
Application of Funds	672.3	618.3	634.5	711.5	769.7	725.6	771.3	775.8	809.4

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025	2026	2027E	2028E
Basic (INR)									
EPS	12.4	10.6	12.2	15.0	16.4	15.7	16.5	15.2	16.4
Cash EPS	13.8	11.9	13.6	16.4	17.8	17.2	17.9	16.7	17.9
BV/Share	53.1	48.6	49.9	55.6	59.7	56.0	57.9	57.8	59.9
DPS	10.2	10.8	11.5	15.5	13.8	14.4	14.5	13.4	14.4
Payout %	85	100	93	101	84	91	90	90	90
Valuation (x)									
P/E	22.7	26.6	23.1	18.8	17.2	17.9	17.1	18.5	17.2
Cash P/E	20.5	23.6	20.7	17.1	15.8	16.4	15.8	16.9	15.8
EV/Sales	9.4	9.3	7.6	6.4	6.3	5.8	5.4	5.2	4.8
EV/EBITDA	25.2	28.9	23.8	19.0	18.4	18.3	17.6	19.6	18.1
P/BV	5.3	5.8	5.7	5.1	4.7	5.0	4.9	4.9	4.7
Dividend Yield (%)	3.6	3.8	4.1	5.5	4.9	5.1	5.1	4.8	5.1
Return Ratios (%)									
RoE	24.5	20.9	24.8	28.5	28.4	27.2	29.0	26.3	27.8
RoCE	24.6	20.9	24.9	29.0	28.2	27.1	28.3	24.5	25.9
RoIC	49.5	40.8	47.3	55.2	54.2	53.9	57.9	52.2	58.9
Working Capital Ratios									
Debtor (Days)	24	19	15	14	18	21	20	19	20
Asset Turnover (x)	0.8	0.9	1.0	1.1	1.0	1.2	1.2	1.2	1.2

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024	2025	2026	2027E	2028E
OP/(loss) before Tax	200.3	179.5	207.2	259.2	271.4	269.3	280.3	254.3	274.5
Financial other income	-8.0	-0.1	0.2	-3.0	-6.6	-7.0	-7.7	4.0	4.2
Depreciation and Amort.	16.4	16.5	17.3	18.1	18.2	19.5	17.1	18.5	19.1
Interest Paid	-14.7	-15.3	-6.9	-15.3	-16.6	-14.6	-13.8	-20.6	-22.2
Direct Taxes Paid	-50.2	-44.6	-53.1	-62.5	-61.2	-63.5	-63.7	-64.0	-69.1
Incr in WC	3.0	6.1	-18.5	-7.7	-33.4	-27.4	-27.6	43.2	-1.2
CF from Operations	146.9	142.0	146.3	188.8	171.8	176.3	184.6	235.4	205.2
Other items	44.7	14.7	3.3	24.1	42.0	-26.1	20.1	16.7	18.1
Incr Decr in FA	24.1	39.9	18.8	26.9	34.6	21.0	21.3	27.9	28.5
Free Cash Flow	122.8	102.2	127.5	161.8	137.2	155.2	163.3	207.5	176.7
Pur of Investments	54.4	-37.9	-0.3	43.7	-29.6	-9.2	32.0	15.0	15.0
CF from Invest.	-33.8	12.8	-15.2	-46.6	37.1	-38.0	-33.2	-26.2	-25.4
Issue of shares	6.3	0.0	0.0	24.8	14.4	8.0	4.0	0.0	0.0
Incr in Debt	0.0	0.0	0.0	-0.6	-0.6	-0.3	19.5	2.1	2.3
Net Interest Paid	0.4	0.0	0.0	0.4	0.5	0.5	0.8	0.0	0.0
Dividend Paid	87.1	186.5	135.6	154.0	199.0	177.6	182.7	187.9	174.1
Others	-0.5	0.0	0.0	0.1	0.1	0.1	-1.5	0.0	0.0
CF from Fin. Activity	-81.8	-186.4	-135.6	-130.1	-185.5	-170.4	-161.5	-185.8	-171.8
Incr of Cash	31.3	-31.7	-4.5	12.2	23.4	-32.1	-10.0	23.4	8.0
Add: Opening Balance	41.5	72.8	41.1	36.6	48.8	72.2	40.1	30.1	53.5
Closing Balance	72.8	41.1	36.6	48.8	72.2	40.1	30.1	53.5	61.5

E: MOSL Estimates

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