



## **ITC Limited: Company Overview and Strategic Analysis**

### **Introduction**

Established in 1910 as the Imperial Tobacco Company of India, ITC Limited has transformed into a diversified conglomerate with businesses spanning FMCG, hotels, paperboards and packaging, agribusiness, and IT services. Headquartered in Kolkata, ITC is one of India's largest private sector corporations, operating over 200 factories and reaching 250 million households. The company has demonstrated strong financial performance, reporting gross revenues of ₹69,446 crore and a net profit of ₹20,422 crore in the latest fiscal year.

### **Business Segments**

ITC's FMCG portfolio includes staples, snacks, confectionery, personal care products, and cigarettes. The hospitality division, ITC Hotels, is a leading luxury chain in India. The company's paperboards and packaging segment is a key supplier to multiple industries, while its agribusiness facilitates commodity trading and farmer services. ITC Infotech provides global IT solutions, positioning the company in the digital services sector.

### **Sustainability and Technological Innovation**

ITC follows a 'Triple Bottom Line' approach, integrating economic, environmental, and social value creation. It has remained carbon-positive for over 17 years and water-positive for over 20 years, with 50% of its energy coming from renewable sources. The company has planted over 1.16 million acres of forests and is plastic neutral through extensive waste management. ITC's investment in R&D, particularly through its Life Sciences & Technology Centre (LSTC) in Bengaluru, supports product innovation across its businesses. The LSTC houses over 400 scientists working on cutting-edge research and intellectual property development. The company has pioneered innovations in food, personal care, and agriculture through scientific advancements.

ITC's digital transformation strategy, 'Mission DigiArc,' leverages AI, data analytics, and Industry 4.0 to enhance supply chains, customer engagement, and operational efficiency. AI/ML algorithms are used for predictive analytics, demand forecasting, and personalized marketing strategies. ITC is also integrating smart warehousing and automation in its factories to improve productivity and cost efficiencies.

For Academic Purposes

## **Global and Indian Economic Landscape**

The global economy is projected to grow at 3.2% in 2024, with advanced economies expanding at 1.7% and emerging markets at 4.2%. Inflation is cooling but remains above central bank targets in many countries, leading to cautious monetary policies. Interest rate hikes in major economies like the U.S. and Europe have restrained investments but helped moderate inflation.

India's economy is expected to grow at 6.5% in 2024, driven by strong domestic demand, government infrastructure spending, and a booming services sector. Inflation has eased to 5.2%, prompting the Reserve Bank of India to maintain the repo rate at 6.5%. The government's fiscal deficit is projected at 5.9% of GDP, supported by record GST collections and disciplined spending. India's external trade performance has shown resilience, with strong services exports narrowing the trade deficit.

### **Global and Indian FMCG Industry**

The global FMCG sector, valued at \$11.8 trillion in 2022, is projected to grow at 5% annually, reaching \$19.6 trillion by 2032. The sector is driven by rising urbanization, increasing disposable incomes, and evolving consumer preferences. Multinational giants like Nestlé, Unilever, and P&G dominate the industry, with digital transformation and sustainability becoming key competitive differentiators.

India's FMCG market, valued at \$192 billion in 2023, is projected to reach \$665 billion by 2032, growing at approximately 15% annually. The sector benefits from rising rural and urban consumption, deeper brand penetration, and increasing e-commerce adoption. While rural



markets are rebounding, urban consumers are shifting towards premium and health-focused products. E-commerce grocery platforms and modern trade channels are expanding, though traditional kirana stores remain dominant.

### **Competitive Landscape**

India's FMCG sector is highly competitive, with Hindustan Unilever (HUL) leading in personal care and home care, ITC excelling in food and tobacco, and Nestlé India dominating packaged foods. New entrants like Mamaearth and Patanjali have disrupted niche segments, prompting incumbents to innovate. Retail conglomerates like Reliance and Tata are also entering FMCG manufacturing, intensifying competition.

### **ITC's Strategic Direction**

Under the leadership of Chairman & CEO Sanjiv Puri, ITC is executing its 'ITC Next' strategy, which focuses on digital transformation, sustainability, and diversification. The company follows a three-horizon growth model:

**Near Term:** Strengthening core businesses like cigarettes, FMCG, and hotels.

**Medium Term:** Expanding into adjacent categories such as dairy, chocolates, and ITC Infotech.

**Long Term:** Investing in future businesses like renewable energy and sustainable packaging.

### **Digital Transformation and ESG Initiatives**

ITC's 'Mission DigiArc' aims to integrate AI, IoT, and automation across its supply chains, enhancing efficiency and market agility. ITC's sustainability efforts focus on renewable energy, waste recycling, and afforestation. Its ESG initiatives align with national development goals, reinforcing its commitment to responsible growth.

### **Corporate Governance and Leadership**

ITC maintains a strong governance framework, with a well-structured board overseeing strategic execution. The company follows a robust succession planning approach and fosters a digital-first culture. The decision to demerge ITC Hotels into a separate entity reflects a strategic move to unlock shareholder value.

### **Challenges and Future Outlook**

Despite its strengths, ITC faces challenges such as regulatory pressures on tobacco, intense competition in FMCG, and global economic uncertainties. However, its diversification, strong cash flows, and adaptability position it well for sustained growth. By investing in innovation, digital transformation, and sustainability, ITC is well-equipped to navigate market dynamics and drive long-term shareholder value.

| Particular               | 201503 | 201603 | 201703 | 201803 | 201903 | 202003 | 202103 | 202203 | 202303 | 202403 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Liability          | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
| Equity Share Capital     | 2%     | 2%     | 3%     | 2%     | 2%     | 2%     | 2%     | 2%     | 2%     | 2%     |
| Reserves                 | 95%    | 97%    | 96%    | 97%    | 97%    | 97%    | 96%    | 96%    | 96%    | 96%    |
| Borrowings               | 1%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     |
| Other Liabilities        | 1%     | 0%     | 0%     | 0%     | 0%     | 0%     | 1%     | 1%     | 1%     | 1%     |
| Total Assets             | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
| Net Block                | 47%    | 35%    | 34%    | 31%    | 32%    | 33%    | 38%    | 38%    | 37%    | 37%    |
| Capital Work in Progress | 8%     | 6%     | 8%     | 10%    | 7%     | 5%     | 7%     | 5%     | 4%     | 4%     |
| Investments              | 21%    | 27%    | 37%    | 41%    | 42%    | 43%    | 40%    | 39%    | 42%    | 41%    |
| Other Assets             | 5%     | 9%     | 7%     | 8%     | 8%     | 3%     | 2%     | 5%     | 7%     | 2%     |
| Receivables              | 6%     | 4%     | 5%     | 5%     | 7%     | 4%     | 4%     | 4%     | 4%     | 5%     |
| Inventory                | 27%    | 21%    | 17%    | 14%    | 13%    | 13%    | 17%    | 17%    | 17%    | 19%    |
| Cash & Bank              | 24%    | 14%    | 6%     | 5%     | 7%     | 11%    | 8%     | 7%     | 7%     | 9%     |

### Financial Position and Balance Sheet Composition

The balance sheet analysis of ITC over multiple fiscal years highlights its robust financial stability. The company has maintained a strong reserve position, averaging around 96% of total liabilities, indicating its ability to internally finance expansions and mitigate risks. Equity share capital remains consistent at 2%, reflecting a conservative capital structure with minimal dilution. ITC has negligible borrowings, reinforcing its debt-free status and reducing financial risk exposure. The allocation of total assets is efficiently spread across net block, investments, and inventory. Investments have grown steadily from 21% in 2015 to over 41% in 2024, reflecting the company's strategic focus on generating long-term returns. The company has optimized its cash and bank balances, ensuring liquidity while maintaining an efficient working capital cycle.

|                     | 201603 | 201703 | 201803 | 201903 | 202003 | 202103 | 202203 | 202303 | 202403 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Sales               | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
| Raw Material Cost   | 34%    | 35%    | 33%    | 35%    | 34%    | 40%    | 43%    | 40%    | 38%    |
| Change in inventory | 0%     | -1%    | -2%    | 0%     | 1%     | 1%     | 1%     | 0%     | 1%     |
| Power and fuel      | 1%     | 1%     | 1%     | 1%     | 1%     | 1%     | 1%     | 2%     | 2%     |
| Other Mfr Exp       | 4%     | 4%     | 4%     | 4%     | 4%     | 3%     | 3%     | 3%     | 3%     |
| Employee Cost       | 8%     | 8%     | 8%     | 8%     | 8%     | 8%     | 8%     | 8%     | 8%     |
| Selling and admin   | 10%    | 10%    | 9%     | 9%     | 9%     | 8%     | 8%     | 8%     | 8%     |
| Other Expenses      | 19%    | 17%    | 16%    | 16%    | 16%    | 15%    | 14%    | 14%    | 15%    |
| Other Income        | 4%     | 4%     | 5%     | 4%     | 5%     | 5%     | 3%     | 3%     | 4%     |
| Depreciation        | 3%     | 3%     | 3%     | 3%     | 3%     | 3%     | 3%     | 2%     | 2%     |
| Interest            | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     | 0%     |
| Profit Before Tax   | 36%    | 36%    | 39%    | 38%    | 38%    | 34%    | 33%    | 35%    | 37%    |
| Tax                 | 13%    | 13%    | 13%    | 12%    | 9%     | 8%     | 8%     | 9%     | 8%     |
| Net Profit          | 23%    | 24%    | 26%    | 25%    | 30%    | 25%    | 25%    | 27%    | 28%    |
| Dividend Amount     | 12%    | 13%    | 14%    | 0%     | 0%     | 12%    | 10%    | 10%    | 15%    |

## Income Statement Analysis and Profitability Trends

A deep dive into ITC's income statement over the years reflects strong financial performance and steady profitability. The company has consistently maintained gross margins despite fluctuations in raw material costs, which peaked at 43% in 2022 but moderated to 38% in 2024. Employee costs and selling & administrative expenses have remained stable, indicating strong cost control measures. ITC's net profit margin has demonstrated resilience, averaging between 24% and 30%, with a significant increase to 30% in 2020, reflecting operational efficiency. Dividend payouts have been consistently high, reflecting ITC's commitment to rewarding shareholders, with a peak payout of 99% in 2021. The company's ability to maintain strong profit margins despite macroeconomic fluctuations underscores its pricing power and operational strength.

| Ratio Analysis                          |        |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Particulars                             | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   |
| <b>Profitability Ratios</b>             |        |        |        |        |        |        |        |        |        |
| EBITDA Margin                           | 39%    | 39%    | 41%    | 41%    | 42%    | 38%    | 36%    | 38%    | 39%    |
| PAT Margin                              | 23%    | 24%    | 25%    | 25%    | 30%    | 26%    | 25%    | 27%    | 28%    |
| <b>Leverage &amp; Coverage Ratios</b>   |        |        |        |        |        |        |        |        |        |
| Debt / Equity                           | 0.062% | 0.040% | 0.022% | 0.014% | 0.009% | 0.009% | 0.008% | 0.005% | 0.002% |
| Net Debt / EBITDA                       | 0.0044 | 0.0022 | 0.0015 | 0.0005 | 0.0003 | 0.0005 | 0.0002 | 0.0014 | 0.0004 |
| Interest Service Coverage Ratio         | 0.00   | 0.00   | 0.01   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| <b>Liquidity &amp; Turnover Ratio</b>   |        |        |        |        |        |        |        |        |        |
| Current Ratio                           | 3.73   | 3.69   | 2.85   | 3.17   | 4.13   | 3.27   | 2.81   | 2.89   | 3.00   |
| Trade Receivable Days                   | 13     | 15     | 21     | 30     | 18     | 17     | 14     | 14     | 19     |
| Inventory Days                          | 587    | 518    | 501    | 456    | 470    | 505    | 440    | 372    | 386    |
| Trade Payable Days                      | 76     | 81     | 107    | 96     | 96     | 113    | 98     | 84     | 80     |
| <b>Return &amp; Shareholders Ratios</b> |        |        |        |        |        |        |        |        |        |
| EPS                                     | 8      | 9      | 9      | 10     | 13     | 11     | 13     | 16     | 17     |
| DPS                                     | 6      | 5      | 5      | 6      | 10     | 11     | 12     | 16     | 14     |
| Dividend Payout Ratio                   | 72%    | 55%    | 55%    | 55%    | 80%    | 99%    | 91%    | 99%    | 83%    |
| <b>Du Pont Analysis</b>                 |        |        |        |        |        |        |        |        |        |
| Net Profit Margin                       | 23%    | 24%    | 25%    | 25%    | 30%    | 26%    | 25%    | 27%    | 28%    |
| Asset Turnover Ratio                    | 1.07   | 1.05   | 0.74   | 0.69   | 0.66   | 0.72   | 0.84   | 0.89   | 0.84   |
| Equity Multiplier                       | 1.21   | 1.21   | 1.22   | 1.21   | 1.19   | 1.22   | 1.24   | 1.24   | 1.23   |
| ROE                                     | 30%    | 30%    | 23%    | 21%    | 24%    | 23%    | 26%    | 30%    | 29%    |

## Ratio Analysis: Financial Performance Indicators

ITC's ratio analysis reveals its strong profitability, liquidity, and efficiency metrics. The EBITDA margin ranged from 36% to 42%, demonstrating stable operating efficiency. The Return on Equity (ROE) has consistently remained above 20%, peaking at 30% in 2023, signifying strong shareholder returns. The company has maintained a conservative leverage structure, with a debt-to-equity ratio declining from 0.062% in 2016 to 0.005% in 2024, reinforcing its financial prudence. The current ratio has remained well above 2.5, ensuring strong liquidity and financial flexibility. Inventory days have improved significantly, declining from 587 days in 2016 to 372 days in 2023, reflecting enhanced supply chain efficiency. The company's dividend payout ratio remains high, ensuring a stable return for investors.

|                                    |              |
|------------------------------------|--------------|
| <b>Beta</b>                        | <b>0.56</b>  |
| <b>Average Weekly return Nifty</b> | <b>0.25%</b> |
| <b>Average Weekly return ITC</b>   | <b>0.14%</b> |
| <b>Yearly Return Nifty</b>         | <b>14%</b>   |
| <b>Yearly Return ITC</b>           | <b>8%</b>    |

### Market Performance and Risk Analysis

The beta value of ITC is recorded at 0.56, indicating lower volatility compared to the overall market. This suggests that ITC is a defensive stock with relatively stable returns, making it attractive to risk-averse investors. The average weekly return for ITC is 0.14%, compared to Nifty's 0.25%, indicating steady but conservative growth. The yearly return for ITC stands at 8%, which, while lower than Nifty's 14%, signifies stability and lower risk exposure.

| Estimating Future CashFlows Current | Forecast |        |        |        |        |        |                |
|-------------------------------------|----------|--------|--------|--------|--------|--------|----------------|
|                                     | 2024     | 2025   | 2026   | 2027   | 2028   | 2029   | Terminal Value |
| Operating Income                    | 24,592   | 24,859 | 25,130 | 25,403 | 25,679 | 25,958 | 475,469        |
| Marginal Tax Rate                   | 25%      | 25%    | 25%    | 25%    | 25%    | 25%    | 25%            |
| NOPAT: EBIT*(1-T)                   | 18,444   | 18,644 | 18,847 | 19,052 | 19,259 | 19,469 | 356,602        |
| Less:                               |          |        |        |        |        |        |                |
| Re-investment                       | 1,437    | 903    | 912    | 922    | 932    | 943    | 17,264         |
| Cash flow for Firm                  | 17,007   | 17,742 | 17,935 | 18,130 | 18,327 | 18,526 | 339,338        |

| PV of Firm            |        |
|-----------------------|--------|
| PV of 5years cashflow | 67319  |
| PV of Terminal Flow   | 306448 |
| Value of Firm         | 373767 |

| Equity Value                        |            |
|-------------------------------------|------------|
| Value of the firm                   | 373,767    |
| Add: Cash                           | 597        |
| Add: Non-Operating Assets           |            |
| Current Investments                 | 12,944     |
| Investment                          | 17,620     |
| Less:                               |            |
| Long and short term debt            | 303        |
| Other Financial Obligations         | 2,613      |
| Any other non-operating liabilities | -          |
| Non Controlling Interest            | 383        |
| Value of Equity                     | 401,629    |
| no. of shares                       | 1,251.35   |
| <b>Value per share</b>              | <b>321</b> |
| Book Value per share                | 59.54      |
| Market Value per share              | 433        |
| Market Capitalization               | 541,833    |

### Cash Flow and Valuation Forecast

Future cash flow projections indicate a steady increase in operating income, growing from ₹24,592 crore in 2024 to ₹25,958 crore by 2029. After reinvestments, the cash flow for the firm is expected to rise from ₹17,007 crore in 2024 to ₹18,526 crore in 2029. The terminal value is estimated at ₹339,338 crore, reinforcing ITC's long-term growth potential. The present value of the firm is estimated at ₹373,767 crore, with an intrinsic equity value per share calculated at ₹321, indicating a potential downside from the current market price of ₹433.

| Re-investment Growth |        |
|----------------------|--------|
| Average Reinvestment | 724.41 |
| Average EBIT*(1-T)   | 14963  |
| Re-investment Rate   | 5%     |
| ROCE                 | 22%    |
| Growth Rate          | 1.1%   |

| WACC              |         |
|-------------------|---------|
| Rf                | 6.74%   |
| Risk Premium      | 7.10%   |
| Beta              | 0.56    |
| Cost of Equity    | 11%     |
| Cost of Debt      | 17%     |
| Marginal Tax Rate | 25%     |
| Weight of Debt    | 0.406%  |
| Weight of Equity  | 99.594% |
| WACC              | 10.73%  |

### Growth and Cost of Capital Analysis

ITC maintains a reinvestment rate of 5% and a Return on Capital Employed (ROCE) of 22%, leading to a steady growth rate of 1.1%. The Weighted Average Cost of Capital (WACC) stands at 10.73%, comprising a cost of equity of 11% and a cost of debt of 17%. The company's minimal debt exposure and high equity composition (99.59%) suggest a low-risk capital structure.

|      | Sensitivity Analysis |     |     |     |     |     |
|------|----------------------|-----|-----|-----|-----|-----|
|      | Growth Rate          |     |     |     |     |     |
| WACC | 321                  | 0%  | 1%  | 1%  | 3%  | 5%  |
|      | 7%                   | 302 | 296 | 296 | 322 | 380 |
|      | 9%                   | 358 | 350 | 350 | 381 | 448 |
|      | 11%                  | 421 | 413 | 413 | 448 | 525 |
|      | 13%                  | 494 | 484 | 484 | 524 | 612 |
|      | 15%                  | 576 | 565 | 565 | 610 | 710 |

### Sensitivity Analysis: Impact of Growth and WACC on Valuation

A sensitivity analysis of ITC's valuation under different growth and discount rate scenarios reveals significant valuation fluctuations. At a WACC of 11% and a 1% growth rate, the fair value per share is ₹413, while at a 3% growth rate, it rises to ₹448. A higher growth rate of 5% could push the share price to ₹525, highlighting the potential upside if ITC achieves stronger than expected growth. Conversely, a lower growth rate coupled with a higher WACC (15%) could bring down the valuation to ₹565-₹710 per share.

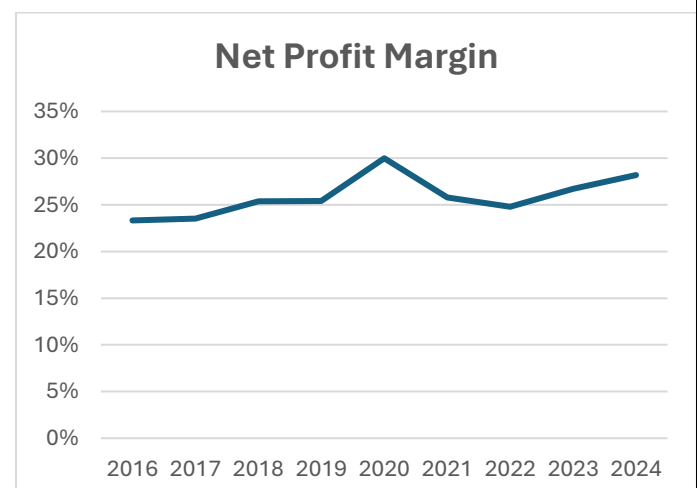
### DuPont Analysis

The **DuPont Analysis** is a powerful framework used to decompose Return on Equity (ROE) into its core components, providing deeper insights into ITC's profitability, efficiency, and financial leverage. The formula used for DuPont Analysis is:

$$\text{ROE} = \text{Net Profit Margin} * \text{Asset Turnover Ratio} * \text{Equity Multiplier}$$

#### 1. Net Profit Margin

Net profit margin indicates how efficiently ITC converts its revenues into profits. Over the years, ITC's net profit margin has







remained strong, fluctuating between **23% and 30%**, peaking at **30% in 2020** before stabilizing at **28% in 2024**. This demonstrates ITC's strong cost control measures, pricing power, and ability to maintain profitability despite inflationary pressures.

## 2. Asset Turnover Ratio

Asset turnover measures ITC's efficiency in utilizing its assets to generate revenue. The ratio has fluctuated between **0.66 and 1.07**, with an improving trend in recent years, reaching **0.89 in 2024**. While this is still on the lower side compared to asset-light industries, ITC's capital-intensive business model, particularly its investments in manufacturing and hotels, explains the relatively moderate asset turnover. The gradual increase in this ratio suggests better operational efficiency and optimized asset utilization.

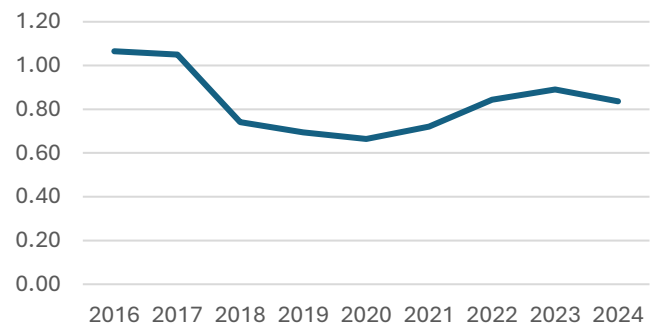
## 3. Equity Multiplier (Financial Leverage)

The equity multiplier represents ITC's financial leverage, showing how much of the company's assets are financed through equity. ITC has maintained a **low leverage structure**, with an equity multiplier fluctuating around **1.21 to 1.24** over the years, standing at **1.24 in 2024**. This signifies ITC's conservative financial strategy, with minimal reliance on debt financing. The company's near-zero debt ensures financial stability, reducing interest burden risks and enhancing shareholder value.

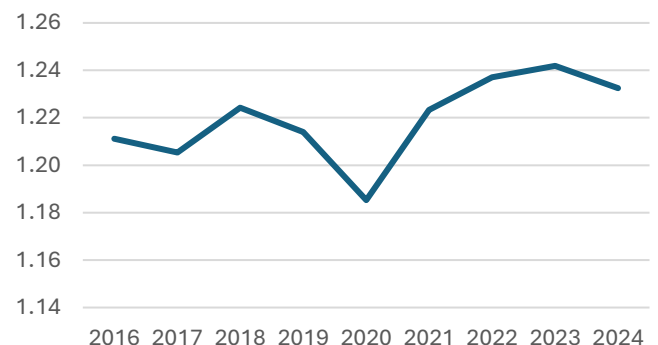
## 4. Return on Equity (ROE) Trend

ITC's ROE has remained consistently high, averaging around 23%-30%, peaking at 30% in 2023, and standing at 29% in 2024. The strong ROE is primarily driven by high profitability (net profit margin), improving asset efficiency, and a stable equity multiplier.

### Asset Turnover Ratio



### Equity Multiplier



### Return Of Equity %

