




ITC Limited

HOLD

Sector: Tobacco

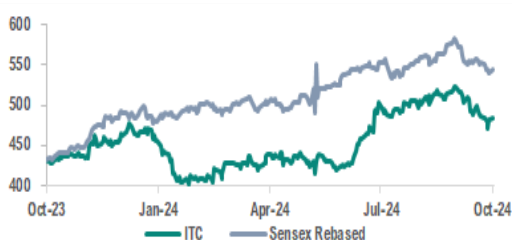
31st October 2024

Key Changes		Target 	Rating 	Earnings 		Target	Rs.524
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	CMP	Rs.489
Large Cap	ITC:IN	79,389	ITC	500875	12 Months	Return	+7%

Data as of: 31-10-2024

Company Data			
Market Cap (Cr)	605,493		
52 Week High — Low (Rs.)	529 - 329		
Enterprise Value (Rs. cr)	604,312		
Outstanding Shares (Rs cr)	1,250.8		
Free Float (%)	74.0		
Dividend Yield (%)	2.8%		
6m average volume (cr)	1.57		
Beta	0.4		
Face value (Rs)	1.0		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	0.0	0.0	0.0
FII's	41.0	40.5	40.5
MFs/Institutions	43.8	44.0	44.6
Public	14.0	14.2	13.8
Others	1.3	1.3	1.1
Total	100.0	100.0	100.0
Promoter Pledge	0.0	0.0	0.0
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-3.7%	10.0%	11.7%
Absolute Sensex	-1.6%	8.5%	25.4%
Relative Return	-2.0%	1.5%	-13.8%

*over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
Sales	70,105	73,532	80,801
Growth (%)	-0.2	4.9	9.9
EBITDA	24,479	26,813	30,531
EBITDA Margin (%)	34.9	36.5	37.8
PAT Adjusted	20,430	21,221	24,057
Growth (%)	9.4	3.9	13.4
Adjusted EPS	16.4	17.0	19.3
Growth (%)	8.7	3.9	13.4
P/E	25.7	28.5	25.1
P/B	7.3	7.7	7.1
EV/EBITDA	21.5	22.5	19.8
ROE (%)	28.3	27.1	28.2
D/E	0.0	0.0	0.0

Author:

Solid growth despite headwinds

ITC Ltd is a diversified conglomerate, with presence in the fast-moving consumer goods (FMCG), hotels, paperboards and specialty paper, packaging, and agri business sectors.

- The company's standalone revenue rose 16.0% YoY in Q2FY25 to Rs. 20,360cr, with strong performances of the agri and hotel businesses more than offsetting weak demand and operational challenges.
- EBITDA rose 4.9% YoY to Rs. 6,335cr. However, margins contracted 330bps YoY to 31.1% owing to elevated input costs. Effective cost mitigation strategies, including premiumisation strategy, strategic pricing and cost optimisation, helped curtail a sharper impact.
- Consequently, profit after tax rose 3.1% YoY to Rs. 5,078cr, with a further rise offset by increased finance costs.
- Going forward, ITC's prospects are expected to be further enhanced by signs of recovery in rural areas, stable commodity prices and favourable macroeconomic conditions.

Valuation

ITC delivered robust revenue growth in Q2FY25, defying pressures from rising costs and subdued demand. Innovation and expansion of its food and beverage (F&B) offerings have positioned the company favourably for growth. Benefits from the demerger of the hotels business, localisation strategy and premiumisation efforts are also expected to drive growth. Overall, the company's diversified portfolio, strategic initiatives, supply chain optimisation and favourable market conditions bode well. But challenges remain, including competitive intensity in cigarettes and pressure in the paper and paperboard business. Hence, we **reiterate our HOLD rating on the stock with a revised target price of Rs. 524, based on SOTP valuation methodology.**

Quarterly Financials Standalone

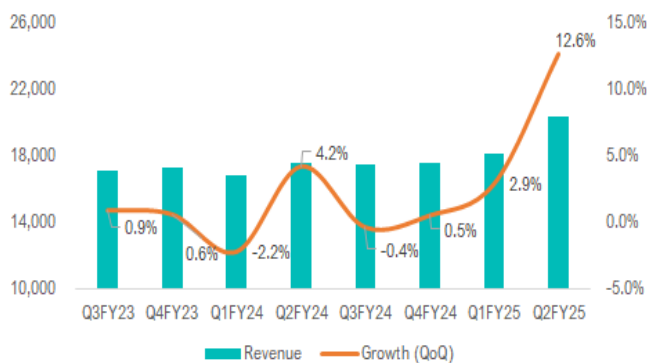
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	20,360	17,549	16.0	18,077	12.6	38,437	34,392	11.8
EBITDA	6,335	6,042	4.9	6,296	0.6	12,631	12,292	2.8
Margin (%)	31.1	34.4	-330bps	34.8	-370bps	32.9	35.7	-280bps
EBIT	5,891	5,628	4.7	5,865	0.4	11,756	11,476	2.4
PBT	6,754	6,514	3.7	6,552	3.1	13,306	13,059	1.9
Rep. PAT	5,078	4,927	3.1	4,918	3.3	9,996	9,830	1.7
Adj PAT	5,079	4,927	3.1	4,921	3.2	10,000	9,830	1.7
EPS (Rs)	4.1	3.9	2.9	3.9	2.9	8.0	7.9	1.6



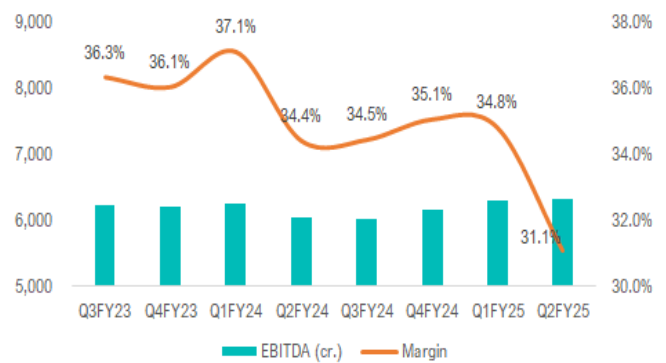
Key Highlights

- Revenue of the agri business grew 47.1% YoY in Q2FY25 to Rs. 5,781cr, propelled by leaf tobacco exports and value-added agri offerings. Also, the hotel business' revenue rose 12.1% YoY to Rs. 728cr on resilient demand from the retail and wedding segments.
- FMCG-others increased 5.4% YoY to Rs. 5,578cr, supported by staples, biscuits and snacks. Cigarettes revenue rose 6.8% YoY to 8,177cr, fuelled by premium products. Paperboards, paper and packaging revenue also edged up 2.1% YoY to Rs. 2,114cr.
- ITC strengthened its F&B portfolio with the launch of Ottimo at ITC Grand Goa and Avartana at ITC Maurya.
- Also, the company operationalised nine managed properties and secured management contracts for 15 additional properties in H1FY25.
- ITC Indivision Limited's newly established facility for manufacturing nicotine and nicotine derivative products secured EU REACH compliance approvals.

Revenue



EBITDA



Sum of the Parts (SOTP Valuation)

Particulars	Basis	Multiple	EBITDA/Sales (Rs Cr)	Year	Value (Rs Cr)	Value/share (Rs)
Cigarettes	EV/EBITDA	14.5x	23,407	FY26E	339,402	271
FMCG - others	EV/Sales	10.0x	25,361	FY26E	253,615	203
Paperboards , Paper & Packaging	EV/EBITDA	13.0x	1,614	FY26E	20,988	17
Agri Business	EV/EBITDA	9.0x	1,799	FY26E	16,189	13
Hotels	EV/EBITDA	28.0x	909	FY26E	25,452	20
Enterprise Value					655,646	524
Net Debt					-50	-0
Equity Value					655,696	524

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	74,183	80,140	73,532	80,801	-0.9	0.8
EBITDA	28,649	31,726	26,813	30,531	-6.4	-3.8
Margins (%)	38.6	39.6	36.5	37.8	-210bps	-180bps
Adj. PAT	22,154	24,529	21,221	24,057	-4.2	-1.9
EPS	17.8	19.7	17.0	19.3	-4.4	-2.1



Standalone Financials

Profit & Loss

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	59,746	70,251	70,105	73,532	80,801
% change	23.1	17.6	-0.2	4.9	9.9
EBITDA	18,934	23,944	24,479	26,813	30,531
% change	22.0	26.5	2.2	9.5	13.9
Depreciation	1,652	1,663	1,648	1,706	1,632
EBIT	17,282	22,282	22,831	25,106	28,899
Interest	42	42	46	48	50
Other Income	2,590	2,510	3,531	3,574	3,609
PBT	19,830	24,750	26,316	28,632	32,458
% change	15.5	24.8	6.3	8.8	13.4
Tax	4,772	5,997	5,894	7,411	8,401
Tax Rate (%)	24.1	24.2	22.4	25.9	25.9
Reported PAT	15,058	18,753	20,422	21,221	24,057
Adj.*	-	-73	8	-	-
Adj. PAT	15,058	18,680	20,430	21,221	24,057
% change	15.5	24.1	9.4	3.9	13.4
No. of shares (cr)	1232.2	1241.1	1248.5	1248.5	1248.5
Adj EPS (Rs)	12.2	15.2	16.4	17.0	19.3
% change	15.4	23.2	8.7	3.9	13.4
DPS (Rs)	11.5	15.5	13.8	17.0	19.3

Cashflow

Y.E March	FY22A	FY23	FY24A	FY25E	FY26E
Net inc. + Depn.	16,710	20,416	22,070	22,927	25,689
Non-cash adj.	-2,086	-2,060	-2,894	-2,641	-2,259
Other adjustments	0	0	0	0	0
Changes in W.C	184	-444	-3,058	-40	-648
C.F. Operation	14,808	17,912	16,118	20,247	22,781
Capital exp.	-1,675	-1,809	-2,546	-2,595	-2,703
Change in inv.	-2,842	-12,099	-1,777	-5,660	-5,544
Other invest.CF	3,000	8,750	6,452	1,433	1,290
C.F - Investment	-1,517	-5,158	2,128	-6,821	-6,957
Issue of equity	292	2,477	1,443	-	-
Issue/repay debt	-55	-53	-58	6	6
Dividends paid	-13,547	-15,130	-19,606	-13,390	-15,279
Other finance.CF	-27	-25	-34	-48	-50
C.F - Finance	-13,337	-12,730	-18,255	-13,432	-15,324
Chg. in cash	-46	23	-8	-7	500
Closing cash	185	207	198	191	691

Balance Sheet

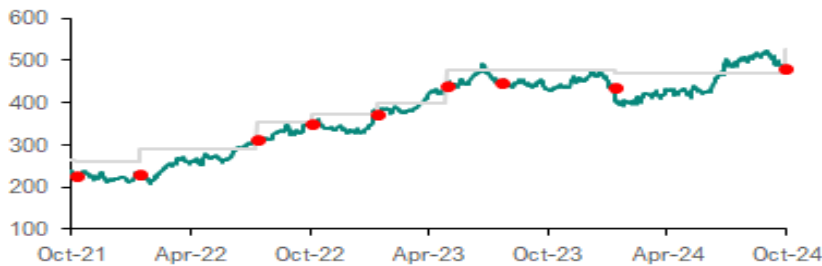
Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	185	207	198	191	691
Accts. Receivable	1,953	2,321	3,311	3,424	3,725
Inventories	9,998	10,594	12,632	12,623	13,419
Other Cur. Assets	18,807	22,081	19,930	19,123	17,740
Investments	15,657	16,364	22,822	29,468	36,453
Gross Fixed Assets	29,058	31,384	33,930	36,525	39,228
Net Fixed Assets	20,636	21,559	23,110	24,065	25,199
CWIP	2,442	1,681	1,078	1,024	973
Intangible Assets	2,608	2,630	2,642	2,683	2,725
Def. Tax (Net)	-	-	-	-	-
Other Assets	2,806	4,824	1,605	1,666	1,731
Total Assets	75,093	82,262	87,328	94,268	102,656
Current Liabilities	11,477	12,414	12,414	12,735	13,741
Provisions	187	202	221	243	267
Debt Funds	102	157	113	119	125
Other Liabilities	1,927	1,895	2,346	2,882	3,232
Equity Capital	1,232	1,243	1,248	1,248	1,248
Res. & Surplus	60,167	66,351	70,985	77,041	84,043
Shareholder Funds	61,400	67,594	72,233	78,289	85,292
Minority Interest	-	-	-	-	-
Total Liabilities	75,093	82,262	87,328	94,268	102,656
BVPS	50	54	58	63	68

Ratio

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	31.7	34.1	34.9	36.5	37.8
EBIT margin (%)	28.9	31.7	32.6	34.1	35.8
Net profit mgn. (%)	25.2	26.7	29.1	28.9	29.8
ROE (%)	24.5	27.7	28.3	27.1	28.2
ROCE (%)	28.1	32.9	31.6	32.0	33.8
W.C & Liquidity					
Receivables (days)	11.9	12.1	17.2	17.0	16.8
Inventory (days)	123.1	116.9	145.7	144.2	142.0
Payables (days)	52.0	48.0	51.8	52.0	52.9
Current ratio (x)	2.7	2.8	2.9	2.8	2.6
Quick ratio (x)	1.5	1.8	1.7	1.6	1.4
Turnover & Leverage					
Gross asset T.O (x)	2.1	2.3	2.1	2.1	2.1
Total asset T.O (x)	0.8	0.9	0.8	0.8	0.8
Int. covge. ratio (x)	412.0	532.9	499.3	522.9	573.2
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	5.2	6.8	7.5	8.2	7.5
EV/EBITDA (x)	16.3	19.9	21.5	22.5	19.8
P/E (x)	20.5	25.3	25.7	28.5	25.1
P/BV (x)	5.0	7.0	7.3	7.7	7.1



Recommendation Summary (last 3 years)



Dates	Rating	Target
9-Feb-22	BUY	291
8-Aug-22	BUY	352
1-Nov-22	HOLD	371
9-Feb-23	HOLD	400
25-May-23	BUY	478
17-Aug-23	HOLD	478
7-Feb-24	HOLD	472
31-Oct-24	HOLD	524

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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