

May 23, 2024

RESULT REPORT Q4 FY24 | Sector: Consumer Staples

ITC Ltd.

Operating performance in-line with our estimate

ITC Ltd. (ITC) 4QFY24 operating performance was in-line with our estimates. Cigarette volumes have seen sequential uptick with calculated volume growth looking slightly better than our estimate. FMCG-Others saw a resilient performance amidst subdued demand in 4QFY24 with 7.2% growth and EBITDA margin of 11.6%. Trade restrictions on agri commodities continue to have an impact on Agri business while value-added agri products and leaf tobacco grew at a healthy pace. Progressive scale-up of export shipments of Nicotine & Nicotine derivative products post trials should provide some aid for the segment. Paperboards, Paper and Packaging (PPP) segment also continued to remain impacted by low priced Chinese supplies in global markets, muted domestic demand, surge in wood cost and high base effect. There is no major change in our earnings. Based on target multiple of ~25x (3yr/5yr avg fwd. multiple ~21x/20x) on Mar'26E EPS, we arrive at an unchanged target price (TP) of Rs500. Maintain ADD.

Result Highlights (Standalone)

- 4QFY24 headline performance:** ITC's 4QFY24 standalone revenue (adjusted for excise duty) was up just 1.1% YoY to Rs165.8bn (vs est. Rs165.9bn). EBITDA was down 0.8% YoY to Rs61.6bn (vs est. Rs61.8bn). APAT was flattish YoY at Rs50.2bn (vs est. Rs51.4bn).
- Overall gross margin came in at 59.9% (+130bps YoY but up 140bps QoQ). While EBITDA margin was down 70bps YoY at 37.2% (vs our est. 37.3%).
- Cigarette** revenue grew by 7.7% YoY to Rs79.2bn (2.6% above our est.), up ~7.6% on a 5-year CAGR basis. Net Segment Revenue (Net of Excise Duty/NCCD on Sales) up by 7%. We believe cigarette volume growth (calculated) to be 2-3% (vs our est. of 1% growth). Cig. business EBIT grew by 5% YoY with EBIT margins down by 160bps YoY to 62.1% (-50bps QoQ).
- FMCG-Others** revenue grew by 7.2% YoY to Rs53bn (in-line with our est.), up ~10.1% on a 5-year CAGR basis. EBITDA margin stood at 11.6% (-170bps YoY as base includes certain fiscal incentives relating to earlier periods but was up 60bps QoQ). EBIT margins was down 110bps YoY to 9% (+70bps QoQ).
- Agri business** was down 13.4% YoY to Rs31bn (5.8% below our est.). Segment EBIT margin down 200bps YoY to 6.5%.
- Paperboards, Paper & Packaging (PPP)** revenue was down 6.7% YoY (1.8% below our est.). Segment EBIT margin down 590bps YoY to 14.2%.
- Hotels** business saw a growth of 14.9% YoY (in-line with our est.). Segment EBIT margin stood at 29.7% (+420bps YoY).
- FY24:** Revenue down by 0.9% YoY while EBITDA and APAT are up by 2.2% and 9.3% YoY, respectively. Gross margin is up 250bps YoY to 58.8% while EBITDA margin is up 120bps YoY to 37.4%. Board of Directors has recommended final dividend of Rs7.50/share.

View & Valuation

There is no major change in our FY25E/FY26E EPS. Some of the factors which supported growth in FY22/23 have now normalized. Additionally, PPP business has been facing near term pressure from multiple issues but now comes into the base. On the other hand, Agri business should see better growth going forward as export ban already into base along with support from export shipments of Nicotine and Nicotine derivative products in FY25. Return ratios are expected to improve further led by hotel business demerger and no major capex in near-term. We build a relatively subdued 10.6% EPS CAGR led by 11% revenue CAGR over FY24-FY26E. The stock is currently trading at ~24x/22x FY25E/FY26E EPS. Based on target multiple of ~25x (3yr/5yr avg fwd. multiple ~21x/20x), we arrive at an unchanged TP of Rs500, maintain ADD rating.

Reco	:	ADD
CMP	:	Rs 441
Target Price	:	Rs 500
Potential Return	:	+13.3%

Stock data (as on May 23, 2024)

Nifty	22,968
52 Week h/l (Rs)	500 / 399
Market cap (Rs/USD mn)	5492029 / 65999
Outstanding Shares (mn)	12,485
6m Avg t/o (Rs mn):	5,879
Div yield (%):	3.5
Bloomberg code:	ITC IN
NSE code:	ITC

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	0.0%
FII+DII	84.7%
Others	15.2%

Δ in instance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	500	500

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	18.2	20.0
EPS (Old)	18.2	19.9
% change	+0.1	+0.5

Financial Summary (Standalone)

(Rs mn)	FY24	FY25E	FY26E
Revenue	654,408	742,348	805,853
YoY Growth (%)	-0.9	13.4	8.6
EBIDTA	244,786	281,868	312,275
Margins (%)	37.4	38.0	38.8
PAT	204,295	227,381	249,694
EPS	16.4	18.2	20.0
YoY Growth (%)	8.4	11.3	9.8
ROCE (%)	36.6	39.3	42.1
ROE (%)	29.2	30.8	32.5
P/E (x)	27.0	24.2	22.1
EV/EBITDA (x)	20.7	17.8	16.0

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	165,793	165,853	171,909	(0.0)	(3.6)
EBITDA	61,626	61,821	63,070	(0.3)	(2.3)
EBITDA Margin (%)	37.2	37.3	36.7	(0.1)	0.5
Adjusted PAT	50,223	51,354	51,497	(2.2)	(2.5)

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rsmn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue	163,980	164,833	165,793	1.1	0.6	660,433	654,408	-0.9
COGS	67,941	68,494	66,529	-2.1	-2.9	288,802	269,821	-6.6
Gross margin %	58.6	58.4	59.9	1.3	1.4	56.3	58.8	2.5
Employee costs	8,940	9,498	9,694	8.4	2.1	35,695	37,322	4.6
% of sales	5.5	5.8	5.8	0.4	0.1	5.4	5.7	0.3
Other expenses	25,005	26,598	27,943	11.8	5.1	96,492	102,479	6.2
% of sales	15.2	16.1	16.9	1.6	0.7	14.6	15.7	1.0
EBITDA	62,094	60,243	61,626	-0.8	2.3	239,445	244,786	2.2
EBITDA margin %	37.9	36.5	37.2	-0.7	0.6	36.3	37.4	1.2
Depreciation	4,219	4,168	4,154	-1.6	-0.3	16,627	16,478	-0.9
EBIT	57,875	56,075	57,473	-0.7	2.5	222,817	228,308	2.5
EBIT margin %	35.3	34.0	34.7	-0.6	0.6	33.7	34.9	1.1
Interest expense	118	124	121	2.5	-2.1	418	457	9.4
Other income	7,463	11,353	7,986	7.0	-29.7	24,376	35,383	45.2
PBT	65,769	67,250	65,317	-0.7	-2.9	247,326	263,158	6.4
Tax	14,901	11,529	15,115	1.4	31.1	59,792	58,938	-1.4
Effective tax rate %	22.7	17.1	23.1	0.5	6.0	24.2	22.4	-1.8
PAT	50,869	55,721	50,202	-1.3	-9.9	187,533	204,220	8.9
Adj PAT	50,318	55,776	50,223	-0.2	-10.0	186,983	204,296	9.3
PAT margin %	30.7	33.8	30.3	-0.4	-3.5	28.3	31.2	2.9
EPS	4.0	4.5	4.0	-0.2	-10.0	15.0	16.4	9.3

Source: Company, YES Sec

Exhibit 3: Quarterly snapshot (Standalone)

Particulars (Rsmn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue (Rsmn)								
Cigarettes	73,558	75,488	79,248	7.7	5.0	282,068	305,966	8.5
FMCG - Others	49,450	52,091	53,002	7.2	1.7	191,225	209,668	9.6
Hotels	7,817	8,420	8,979	14.9	6.6	25,850	29,895	15.6
Agri business	35,786	30,547	31,007	(13.4)	1.5	181,723	157,918	(13.1)
Paper and packaging	22,210	20,809	20,729	(6.7)	(0.4)	90,814	83,444	(8.1)
Revenue mix (%)								
Cigarettes	39.0	40.3	41.1	2.1	0.8	36.6	38.9	2.3
FMCG - Others	26.2	27.8	27.5	1.3	(0.3)	24.8	26.6	1.9
Hotels	4.1	4.5	4.7	0.5	0.2	3.3	3.8	0.4
Agri business	19.0	16.3	16.1	(2.9)	(0.2)	23.5	20.1	(3.5)
Paper and packaging	11.8	11.1	10.7	(1.0)	(0.4)	11.8	10.6	(1.2)
EBIT (Rsmn)								
Cigarettes	46,891	47,281	49,233	5.0	4.1	179,271	190,892	6.5
FMCG - Others	5,016	4,318	4,773	(4.9)	10.5	13,742	17,786	29.4
Hotels	1,996	2,297	2,671	33.8	16.3	5,419	7,538	39.1
Agri business	3,071	3,393	2,026	(34.0)	(40.3)	13,277	12,544	(5.5)

Particulars (Rsmn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Paper and packaging	4,450	2,960	2,934	(34.1)	(0.9)	22,940	13,776	(39.9)
EBIT mix (%)								
Cigarettes	76.3	78.5	79.9	3.5	1.4	76.4	78.7	2.3
FMCG - Others	8.2	7.2	7.7	(0.4)	0.6	5.9	7.3	1.5
Hotels	3.2	3.8	4.3	1.1	0.5	2.3	3.1	0.8
Agri business	5.0	5.6	3.3	(1.7)	(2.3)	5.7	5.2	(0.5)
Paper and packaging	7.2	4.9	4.8	(2.5)	(0.2)	9.8	5.7	(4.1)
EBIT margin (%)								
Cigarettes	63.7	62.6	62.1	(1.6)	(0.5)	63.6	62.4	(1.2)
FMCG - Others	10.1	8.3	9.0	(1.1)	0.7	7.2	8.5	1.3
Hotels	25.5	27.3	29.7	4.2	2.5	21.0	25.2	4.3
Agri business	8.6	11.1	6.5	(2.0)	(4.6)	7.3	7.9	0.6
Paper and packaging	20.0	14.2	14.2	(5.9)	(0.1)	25.3	16.5	(8.8)

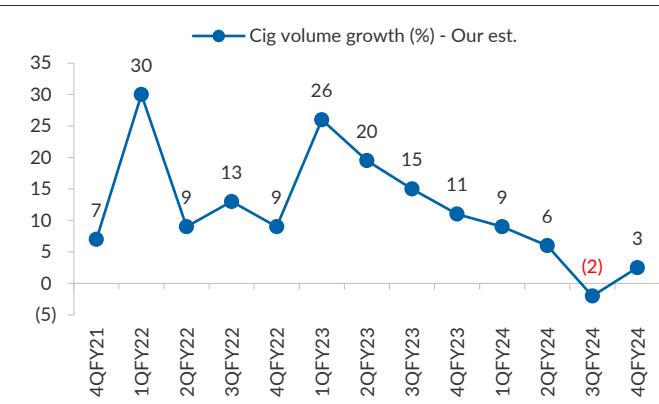
Source: Company, YES Sec

Key excerpts from ITC Q4FY24 media statement and investor presentation

- **Demand outlook:** While consumption demand remained subdued in the quarter, improving macro-economic indicators, prospects of a normal monsoon and green shoots witnessed in rural demand recovery after several quarters, augur well for revival in consumption demand in the near term.
- **FMCG Cigarettes:** Cigarettes Segment witnessed consolidation of volumes on a high base after a period of sustained growth momentum. Differentiated and premium offerings continued to perform well while illicit trade remained at elevated levels. Differentiated and premium offerings saw robust traction during the year. Sharp escalation in leaf tobacco prices and other inputs, along with increase in taxes were largely mitigated through improved mix, strategic cost management and calibrated pricing. Trade marketing spends were restructured during the year for sharper last mile execution.
- **FMCG Others:** The segment delivered resilient performance despite weak demand conditions and significant increase in competitive intensity from regional/local players. Company is witnessing sequential uptick in certain commodity prices. In line with the Company's multi-channel Go-to-Market strategy, market coverage was stepped up to approx. 2x of pre-pandemic levels. In rural markets, direct reach enhancement was supported through a hub and spoke distribution model with the continued expansion of rural stockists' network to 1.3x over last two years and collaborations with rural-focused eB2B players.
- **Agri Business:** With the Government having to impose stocks limits and restrictions on agri-commodity exports to ensure food security and control inflation, the Agri Business had limited business opportunities during the year in the bulk commodities space. However, the strategic portfolio of value-added agri products recorded strong growth while the overall leaf tobacco business continued to perform well. Strategic portfolio (comprising value-added agri products) and leaf tobacco revenues up 19% YoY in FY24 and 18% YoY in Q4. While the Leaf Tobacco business witnessed robust growth during the year, margins were impacted by surge in cost of leaf tobacco.
- **Paperboards, Paper & Packaging:** The segment had to contend with soft domestic and export demand conditions which significantly depressed net realizations, cheap Chinese supplies in international markets including India, unprecedented escalation in domestic wood costs and high base effect. Capacity utilisation of Nadiad packaging and printing unit in Gujarat progressively ramped up. The Company has forayed into the fast-growing premium Moulded Fibre Products (MFP) space with commissioning of State-of-the-art premium Moulded Fibre Products manufacturing facility (set up by ITC Fibre Innovations Limited, the Company's wholly owned subsidiary wholly owned subsidiary) in Badiyakhedi, Madhya Pradesh commissioned in Mar'24. MFP has applications across industries including food serving & delivery, pharmaceutical, beauty and electronics.

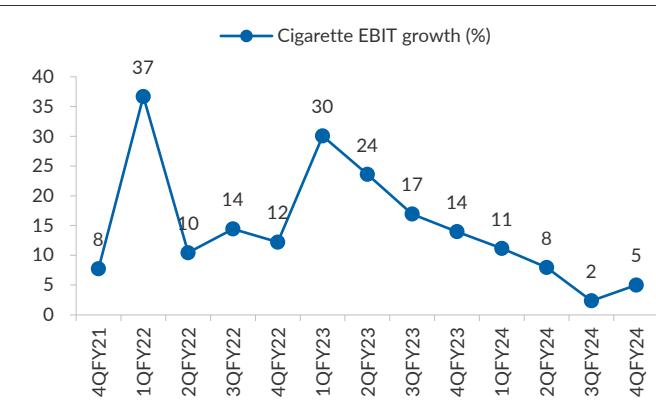
- **Distribution:** In rural markets, direct reach enhancement was supported through a hub and spoke distribution model with the continued expansion of rural stockists' network to 1.3x over last two years and collaborations with rural-focused eB2B players. UNNATI was rapidly scaled up during the year covering nearly 0.7mn outlets.
- **Channel:** Modern Trade, now account for 31% of the Company's Branded Packaged Foods, Personal Care Products, and Incense Sticks (Agarbattis) and Safety Matches sales (Vs. 17% in FY20). ITC e-Store', the Company's exclusive Direct to Consumer (D2C) platform, is now operational in 24,000+ pin-codes and continues to receive excellent consumer response.
- **Hotel demerger update:** Post obtaining no-objection from stock exchanges, Scheme of Arrangement for demerger the scheme was filed with NCLT. NCLT has directed convening a meeting shareholder of ITC on 6th June, 2024, to consider and approve the Scheme.

Exhibit 4: We believe cigarette volumes to have grown by 2-3% YoY in 4QFY24



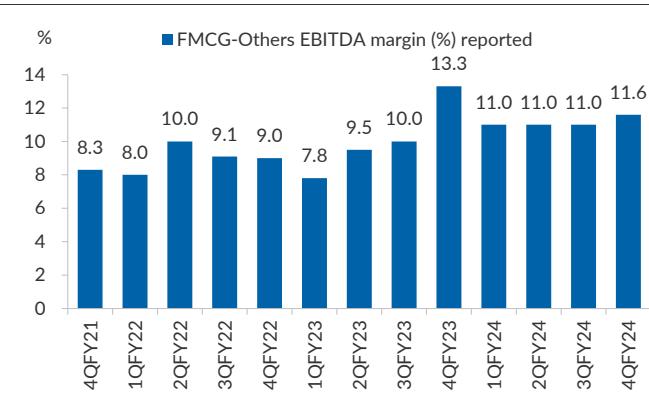
Source: Company, YES Sec

Exhibit 5: Cigarette EBIT grew ~5% YoY (segment EBIT margin down 160bps/50bps YoY/QoQ)



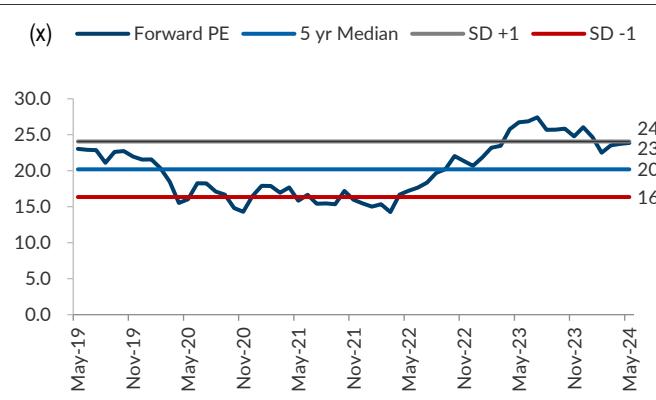
Source: Company, YES Sec

Exhibit 6: FMCG-Others EBITDA margin stood at 11% for third consecutive quarter (+100 bps YoY)



Source: Company, YES Sec; Note: 4QFY23 includes certain fiscal incentives relating to earlier periods

Exhibit 7: Currently trading at ~25x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	12,323	12,428	12,485	12,485	12,485
Reserves	601,672	663,510	709,849	743,587	767,072
Net worth	613,996	675,938	722,333	756,072	779,556
Total debt	45	33	18	18	18
Lease liability	3,059	3,201	3,087	2,933	2,786
Deferred tax liability	16,671	16,211	20,837	22,837	24,837
Total liabilities	633,771	695,383	746,275	781,858	807,196
Gross block	384,914	411,077	442,920	457,920	472,920
Depreciation	163,239	179,867	196,345	213,746	232,663
Net block	221,674	231,211	246,575	244,174	240,257
Capital work-in-progress	24,423	16,815	10,780	10,780	10,780
Other long-term assets	10,770	10,682	10,948	10,948	10,948
Investments	272,823	327,206	347,388	392,490	425,681
Inventories	99,978	105,939	126,315	118,927	117,422
Debtors	19,525	23,213	33,115	38,289	41,577
Cash	38,779	38,313	62,177	65,000	70,000
Loans & advances	51,001	55,358	24,637	25,130	25,632
Other current assets	11,952	13,881	11,342	11,909	12,504
Total current assets	221,234	236,704	257,585	259,255	267,136
Creditors	42,234	43,513	44,896	49,432	52,613
Other current liabilities & provisions	74,920	83,721	82,106	86,356	94,992
Total current liabilities	117,154	127,234	127,001	135,788	147,605
Net current assets	104,081	109,470	130,584	123,467	119,531
Total assets	633,771	695,383	746,275	781,858	807,196

Source: Company, YES Sec

Exhibit 9: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	563,413	660,433	654,408	742,348	805,853
% Growth	23.9	17.2	-0.9	13.4	8.6
COGS	270,469	298,219	282,575	311,518	330,274
Other expenses	103,421	122,451	127,048	148,962	163,303
Total expenses	373,890	420,670	409,622	460,480	493,578
EBITDA	189,522	239,762	244,786	281,868	312,275
% growth	22.0	26.5	2.1	15.1	10.8
EBITDA margin (%)	33.6	36.3	37.4	38.0	38.8
Other income	25,900	24,376	35,383	35,997	40,847
Interest costs	605	736	457	489	524
Depreciation	16,522	16,627	16,478	17,401	18,917
Profit before tax	198,295	246,775	263,233	299,975	333,682
Exceptional items	0	550	-76	0	0
Tax	47,717	59,792	58,938	72,594	83,988
PAT	150,578	187,533	204,220	227,381	249,694
Adj PAT	150,578	186,983	204,295	227,381	249,694
Adj PAT margin (%)	25.6	27.3	29.6	29.2	29.5
% Growth	15.5	24.2	9.3	11.3	9.8

Source: Company, YES Sec

Note: Full year COGS also includes contract processing charges (included in other op. exps. in quarterly)

Exhibit 10: Cash flow statement

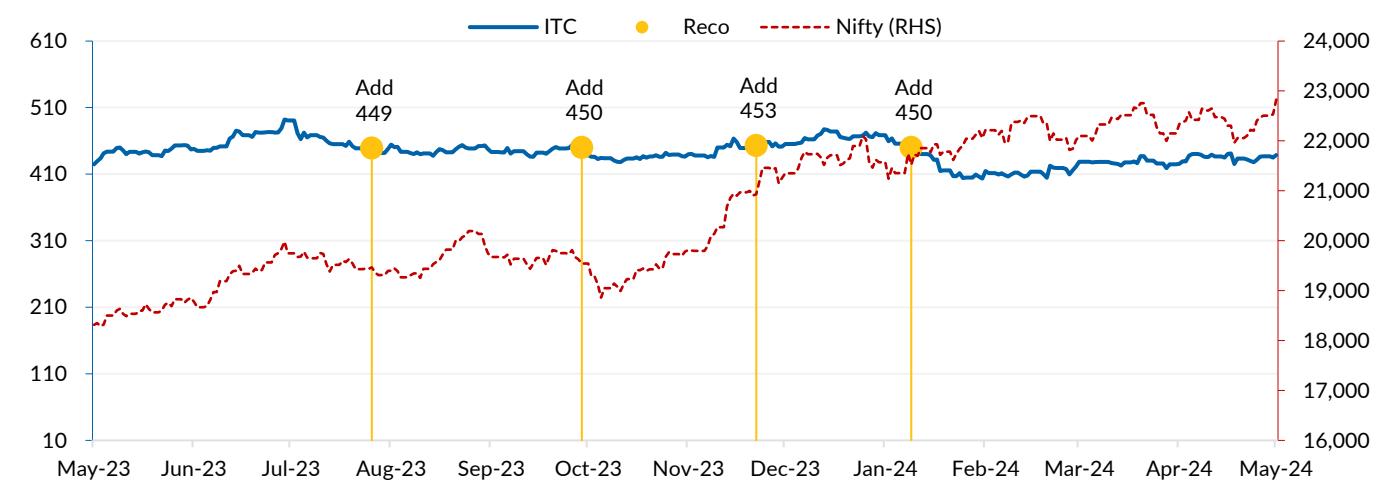
Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	198,295	247,504	263,233	299,975	333,682
Depreciation	16,522	16,627	16,478	17,401	18,917
Other income	(13,853)	(8,640)	(35,383)	(35,997)	(40,847)
(Inc.)/dec. in working capital	1,841	(4,441)	(28,894)	6,750	1,399
Other items	(54,727)	(71,933)	(58,481)	(72,105)	(83,464)
Cash flow from operations	148,078	179,117	156,954	216,024	229,686
Capital expenditure (-)	(16,748)	(18,095)	(25,808)	(15,000)	(15,000)
Net cash after capex	131,330	161,022	131,146	201,024	214,686
Inc. / (dec.) in other inv. & assets	805	(34,185)	72,638	(36,435)	(14,872)
Cash flow from investment activities	(15,943)	(52,280)	46,830	(51,435)	(29,872)
Issue of share capital (incl premium)	2,918	24,774	12,749	10,000	10,000
Dividends paid (-)	(135,471)	(151,504)	(192,550)	(171,630)	(204,643)
Other items	(818)	(574)	(119)	(136)	(170)
Cash from financial activities	(133,370)	(127,304)	(179,920)	(161,766)	(194,813)
Opening cash balance	40,015	38,779	38,313	62,177	65,000
Closing cash balance	38,779	38,313	62,177	65,000	70,000
Change in cash balance	(1,236)	(467)	23,864	2,823	5,000

Exhibit 11: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	12.2	15.1	16.4	18.2	20.0
Book value	49.8	54.4	57.9	60.6	62.4
DPS	11.5	15.5	13.7	16.4	19.0
Valuation (x)					
EV/sales	9.3	7.8	7.8	6.8	6.2
EV/EBITDA	27.3	21.4	20.7	17.8	16.0
P/E	36.1	29.3	27.0	24.2	22.1
P/BV	8.9	8.1	7.6	7.3	7.1
Return ratios (%)					
RoCE*	32.0	37.2	36.6	39.3	42.1
RoE	25.0	29.0	29.2	30.8	32.5
RoIC*	61.2	73.1	71.5	82.7	95.5
Profitability ratios (%)					
Gross margin	52.0	54.8	56.8	58.0	59.0
EBITDA margin	33.6	36.3	37.4	38.0	38.8
EBIT margin	30.7	33.8	34.9	35.6	36.4
PAT margin	25.6	27.3	29.6	29.2	29.5
Liquidity ratios (%)					
Current ratio	1.9	1.9	2.0	1.9	1.8
Quick ratio	1.0	1.0	1.0	1.0	1.0
Turnover ratios					
Total asset turnover ratio (x)	0.9	0.9	0.9	0.9	1.0
Fixed asset turnover ratio (x)	2.5	2.9	2.7	3.0	3.4
Inventory days	131	126	150	144	131
Debtors days	13	12	16	18	18
Creditor days	56	52	57	55	56

Source: Company, YES Sec; * ROCE & ROIC are on pre-tax basis

Recommendation Tracker



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