

## Consumer Staples | Q4FY24 Result Update

### Near term growth triggers missing

- ITC's Q4FY24 results came in-line. Our analysis suggests that cigarette business reported ~3% volume growth - below our estimate.
- FMCG business reported 7.2% revenue growth with 110bps decline in EBIT margin. FMCG business witnessed competitive intensity from local players.
- Cigarette business is facing consolidation of volumes on a high base. The business reported 11.1% sales CAGR and 8% volume CAGR over last 4 yrs. We expect near term volume and MS gain in this business.
- We have downward revised our FY25/26E EPS estimates by 4.9/4.4% at Rs 17.0/18.9 to factor in Q4 performance and increased pressure in cigarette and paper business. Given recent run-up in stock price, we maintain 'Reduce' rating with SOTP based TP of Rs 443 . Buy on dips.

### Results in line with estimate

Net sales increased 1.6% YoY to Rs 179.2bn, in line with our estimate. Our analysis suggest that the volume growth was ~2% during the quarter. EBITDA remained stable at Rs 66.3bn. EBITDA margins contracted by 60bps to 37% as a result of 50/170bps increase in employee cost/other expenses respectively. APAT increased by 0.7% YoY to Rs 51.9bn, in line our estimate. Though overall results were broadly in line with our estimate, challenges to increase cigarette volumes and profitability in the business would remain a key challenge. Decline in paper business as a result of high base during the quarter.

### Cigarette volume growth improved sequentially

Illicit cigarette sales were the biggest hurdle for ITC's cigarette business growth. However, the recent successful launch of new products is helping re-gain the lost share. Furthermore, ITC reinforced market standing through focused market interventions. During the year, cigarette volume growth improved from -1% in Q3FY24 to 2% in Q4FY24. In addition, the value growth was supported by price hikes taken during past couple of quarters. However, 150bps drop in EBIT margin during the quarter was a negative surprise. Going ahead, in a stable duty scenario, we believe that ITC would gain market share. However, considering high base, we believe that the volume growth would moderate at low to mid-single digit.

### Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	1,79,227	1,76,349	1.6	1,80,194	(0.5)
Total Expense	1,12,965	1,10,109	2.6	1,15,156	(1.9)
EBITDA	66,262	66,240	0.0	65,038	1.9
Depreciation	4,614	4,614	0.0	4,595	0.4
EBIT	61,648	61,626	0.0	60,444	2.0
Other Income	6,838	6,097	12.2	6,568	4.1
Interest	126	122	3.6	136	(7.4)
EBT	68,360	67,601	1.1	66,876	2.2
Tax	16,468	16,080	2.4	12,816	28.5
RPAT	51,928	51,697	0.4	54,120	(4.1)
APAT	51,928	51,697	0.4	54,120	(4.1)
			(bps)		(bps)
Gross Margin (%)	63.2	61.6	164	60.9	233
EBITDA Margin (%)	37.0	37.6	(59)	36.1	88
NPM (%)	29.0	29.3	(34)	30.0	(106)
Tax Rate (%)	24.1	23.8	30	19.2	493
EBIT Margin (%)	34.4	34.9	(55)	33.5	85

CMP	Rs 441
Target / Upside	Rs 443 / 0%
NIFTY	22,968
<b>Scrip Details</b>	
Equity / FV	Rs 12,485mn / Rs 1
Market Cap	Rs 5,485bn
	USD 66.2bn
52-week High/Low	Rs 500/ 399
Avg. Volume (no)	1,74,16,900
Bloom Code	ITC IN
<b>Price Performance</b>	
1M	3M
Absolute (%)	3 7 3
Rel to NIFTY (%)	0 4 (22)

### Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	0.0	0.0	0.0
MF/Banks/FIs	42.0	42.0	41.0
FII	43.3	43.3	41.0
Public / Others	14.7	14.7	18.1

### Valuation (x)

	FY24P	FY25E	FY26E
P/E	26.8	25.8	23.3
EV/EBITDA	21.7	18.7	16.7
ROE (%)	29.2	28.3	28.8
RoACE (%)	28.5	27.6	28.2

### Estimates (Rs bn)

	FY24P	FY25E	FY26E
Revenue	654.4	742.4	805.7
EBITDA	244.8	280.0	309.6
PAT	204.3	212.6	235.7
EPS (Rs.)	16.4	17.1	19.0

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**Exhibit 1: Actual V/s DART Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	1,79,227	1,81,317	(1.2)
EBITDA	66,262	67,562	(1.9)
EBITDA margin %	37.0	37.3	(30bps)
APAT	51,893	51,900	(0.0)

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	7,42,388	7,83,741	(5.3)	8,05,673	8,52,771	(5.5)
EBIDTA	2,80,036	2,93,668	(4.6)	3,09,636	3,23,124	(4.2)
EBIDTA margin (%)	37.7	37.5	30 bps	38.4	37.9	50 bps
PAT	2,12,570	2,23,541	(4.9)	2,35,704	2,46,569	(4.4)
EPS (Rs)	17.0	17.9	(4.9)	18.9	19.7	(4.4)

Source: Company DART

We have downward revised our FY25/26E revenue estimates to factor in lower growth in agri and paper business during Q4. However, we have increased our EBITDA margin estimates to factor in anticipated increase in efficiencies. In line with the change in EBITDA, we have revised our APAT estimates.

**Exhibit 3: Segmental Performance**

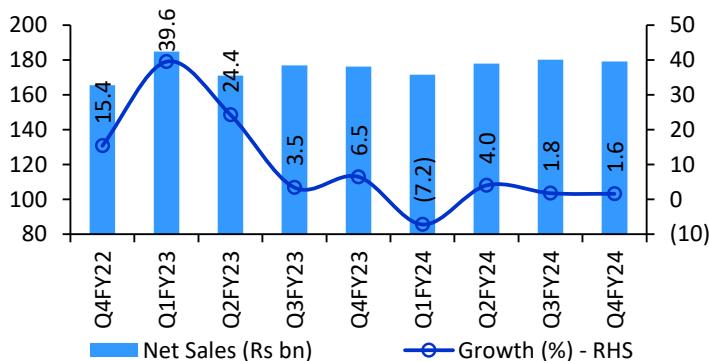
Particulars (Rs Mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Remarks
Cigarettes						
Revenue	86,889	80,823	7.5	82,952	4.7	▪ Cigarettes business posted revenue growth of 7.5% YoY with 2-3% volume growth in Q4.
EBIT	51,576	49,157	4.9	49,666	3.8	▪ Reinforced market standing through innovation, democratizing, premiumisation, market intervention and strong execution.
EBIT Margin (%)	59.4	60.8 (150.0bps)		59.9 (50.0bps)		
FMCG Others						
Revenue	53,079	49,512	7.2	52,183	1.7	▪ Resilient growth in FMCG business was driven by Staples, Biscuits, Snacks, Dairy, Homecare, Agarbatti drive etc.
EBIT	4,798	5,037	(4.7)	4,338	10.6	▪ Sequentially margins expanded 70bps led by focus on cost management actions, premiumisation, judicious pricing actions, and strategic cost management.
EBIT Margin (%)	9.0	10.2 (110.0bps)		8.3	70.0bps	
Hotels						
Revenue	9,310	8,087	15.1	8,725	6.7	▪ Witnessed strong revenue growth on the back of robust RevPar growth driven by Retail, Contracted and MICE segments.
EBIT	2,642	2,049	29.0	2,335	13.2	▪ Margin expansion driven by higher RevPAR, operating leverage and cost management initiatives.
EBIT Margin (%)	28.4	25.3 300.0bps		26.8	160.0bps	
Agri Business						
Revenue	31,364	36,073	(13.1)	32,732	(4.2)	▪ Revenue growth was impacted due to Government imposed stocks limits and restrictions on agri-commodity exports to ensure food security and control inflation.
EBIT	1,865	3,046	(38.8)	3,807	(51.0)	▪ Focus remains on rapidly scaling up value-added product portfolio.
EBIT Margin (%)	5.9	8.4 (250.0bps)		11.6 (570bps)		
Paper & Packaging						
Revenue	20,729	22,210	(6.7)	20,809	(0.4)	▪ Revenue growth was impacted due to low priced Chinese supplies in global markets, muted domestic demand, surge in wood cost and high base effect.
EBIT	2,911	4,450	(34.6)	2,952	(1.4)	▪ EBIT margins were impacted due to subdued realizations and surge in domestic wood prices.
EBIT Margin (%)	14.0	20.0 (600.0bps)		14.2 (10bps)		
Total						
Revenue	197,400	192,847	2.4	203,641	(3.1)	
EBIT	63,097	64,063	(1.5)	62,518	0.9	
EBIT Margin (%)	32.0	33.2 (130bps)		30.7	130bps	

Source: Company, DART

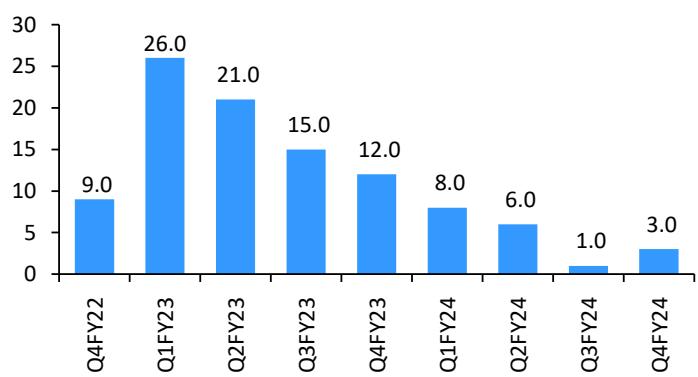
**Exhibit 4: SOTP valuation**

FY25E	Sales (Rs mn)	EBITDA	Basis	Multiple (x)	Total EV	Rs/share	Comments
Cigarettes	2,99,391	2,10,795	EV/EBITDA	12.0	25,29,540	203	In line with global and domestic peers
Paper	1,04,393	35,893	EV/EBITDA	7.0	2,51,249	20	Multiple in line with peers
Agri	1,13,540	24,750	EV/EBITDA	7.0	1,73,252	14	In line with domestic peers
New FMCG	2,35,268	30,943	EV/Sales	7.0	16,46,879	132	In line with most FMCG companies
Hotels	53,397	7,255	EV/Sales	7.0	3,73,779	30	In line with peers
<b>Total</b>	<b>805988</b>	<b>3,09,636</b>			<b>49,74,700</b>	<b>398</b>	
<b>Gross Value</b>					<b>49,74,700</b>		
Net Cash						5,50,147	
<b>Net Value (Rs mn)</b>						<b>55,24,847</b>	
<b>No of Shares</b>						12,485	
Per share (Rs)							<b>443</b>

Source: Company, DART

**Exhibit 5: Trend in Net Sales & YoY Growth (%)**


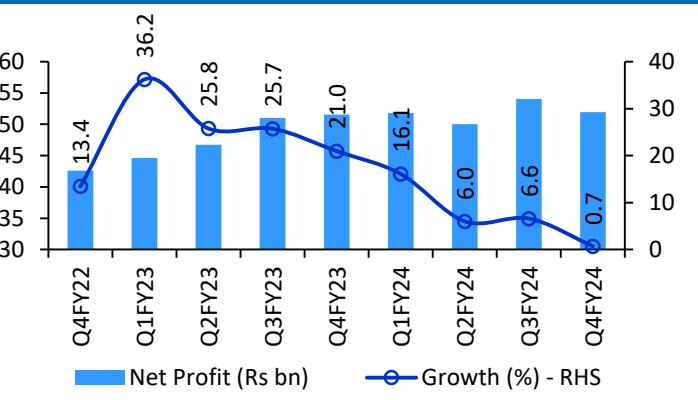
Source: Company, DART

**Exhibit 6: Trend in Cigarette Volume Growth (%)**


Source: Company, DART

**Exhibit 7: Trend in EBITDA & YoY EBITDA growth (%)**


Source: Company, DART

**Exhibit 8: Trend in Net Profit & YoY Net Profit Growth (%)**


Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
<b>Revenue</b>	<b>6,60,433</b>	<b>6,54,408</b>	<b>7,42,388</b>	<b>8,05,673</b>
<b>Total Expense</b>	<b>4,20,988</b>	<b>4,09,622</b>	<b>4,62,352</b>	<b>4,96,037</b>
COGS	2,88,802	2,69,821	2,79,379	3,11,795
Employees Cost	35,695	37,322	52,708	57,229
Other expenses	96,492	1,02,479	1,30,266	1,27,013
<b>EBIDTA</b>	<b>2,39,445</b>	<b>2,44,786</b>	<b>2,80,036</b>	<b>3,09,636</b>
Depreciation	16,627	16,478	21,185	22,245
<b>EBIT</b>	<b>2,22,817</b>	<b>2,28,308</b>	<b>2,58,851</b>	<b>2,87,391</b>
Interest	418	457	480	504
Other Income	24,376	35,383	28,885	31,631
Exc. / E.O. items	729	(76)	0	0
<b>EBT</b>	<b>2,47,504</b>	<b>2,63,158</b>	<b>2,87,257</b>	<b>3,18,518</b>
Tax	59,971	58,938	74,687	82,815
RPAT	1,87,533	2,04,220	2,12,570	2,35,703
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,86,804</b>	<b>2,04,295</b>	<b>2,12,570</b>	<b>2,35,703</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	12,428	12,485	12,485	12,485
Minority Interest	0	0	0	0
Reserves & Surplus	6,63,510	7,09,848	7,65,349	8,43,984
<b>Net Worth</b>	<b>6,75,938</b>	<b>7,22,333</b>	<b>7,77,834</b>	<b>8,56,468</b>
Total Debt	45	33	33	33
Net Deferred Tax Liability	16,211	20,837	21,200	21,200
<b>Total Capital Employed</b>	<b>6,92,195</b>	<b>7,43,203</b>	<b>7,99,067</b>	<b>8,77,701</b>

### Applications of Funds

Net Block	<b>2,41,892</b>	<b>2,57,523</b>	<b>2,56,338</b>	<b>2,54,093</b>
CWIP	16,815	10,780	9,702	8,732
Investments	1,63,636	2,28,219	2,28,219	2,28,219
<b>Current Assets, Loans &amp; Advances</b>	<b>4,00,275</b>	<b>3,76,754</b>	<b>4,51,151</b>	<b>5,47,718</b>
Inventories	1,05,939	1,26,315	1,43,670	1,59,102
Receivables	23,213	33,115	26,235	28,485
Cash and Bank Balances	38,313	62,177	1,25,019	2,02,792
Loans and Advances	43,241	12,345	12,715	13,096
Other Current Assets	25,998	23,634	24,343	25,073
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,30,423</b>	<b>1,30,073</b>	<b>1,46,343</b>	<b>1,61,060</b>
Payables	43,513	44,896	52,881	58,280
Other Current Liabilities	86,910	85,178	93,462	1,02,781
<i>sub total</i>				
Net Current Assets	2,69,852	2,46,681	3,04,808	3,86,657
<b>Total Assets</b>	<b>6,92,195</b>	<b>7,43,203</b>	<b>7,99,067</b>	<b>8,77,701</b>

E – Estimates

**Important Ratios**

Particulars	FY23A	FY24P	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	56.3	58.8	62.4	61.3
EBIDTA Margin	36.3	37.4	37.7	38.4
EBIT Margin	33.7	34.9	34.9	35.7
Tax rate	24.2	22.4	26.0	26.0
Net Profit Margin	28.4	31.2	28.6	29.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	43.7	41.2	37.6	38.7
Employee	5.4	5.7	7.1	7.1
Other	14.6	15.7	17.5	15.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	532.9	499.3	539.1	570.0
Inventory days	59	70	71	72
Debtors days	13	18	13	13
Average Cost of Debt	851.5	1163.9	1447.2	1519.5
Payable days	24	25	26	26
Working Capital days	149	138	150	175
FA T/O	2.7	2.5	2.9	3.2
<b>(D) Measures of Investment</b>				
AEPS (Rs)	15.0	16.4	17.1	19.0
CEPS (Rs)	16.4	17.8	18.8	20.8
DPS (Rs)	12.2	12.6	12.6	12.6
Dividend Payout (%)	81.1	76.9	73.9	66.6
BVPS (Rs)	54.4	58.1	62.6	68.9
RoANW (%)	29.1	29.2	28.3	28.8
RoACE (%)	28.3	28.5	27.6	28.2
RoAIC (%)	35.8	34.2	38.2	42.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	441	441	441	441
P/E	29.4	26.8	25.8	23.3
Mcap (Rs Mn)	54,85,098	54,85,098	54,85,098	54,85,098
MCap/ Sales	8.3	8.4	7.4	6.8
EV	52,83,260	53,03,785	52,40,943	51,63,170
EV/Sales	8.0	8.1	7.1	6.4
EV/EBITDA	22.1	21.7	18.7	16.7
P/BV	8.1	7.6	7.1	6.4
Dividend Yield (%)	2.8	2.9	2.9	2.9
<b>(F) Growth Rate (%)</b>				
Revenue	17.2	(0.9)	13.4	8.5
EBITDA	26.5	2.2	14.4	10.6
EBIT	28.9	2.5	13.4	11.0
PBT	24.8	6.3	9.2	10.9
APAT	24.1	9.4	4.1	10.9
EPS	24.1	9.4	4.1	10.9

E – Estimates

**Cash Flow**

Particulars	FY23A	FY24P	FY25E	FY26E
<b>Profit before tax</b>	<b>2,46,775</b>	<b>2,63,233</b>	<b>2,87,257</b>	<b>3,18,518</b>
Depreciation & w.o.	16,627	16,478	21,185	22,245
Net Interest Exp	418	457	480	504
Direct taxes paid	(58,006)	(56,829)	(74,687)	(82,815)
Change in Working Capital	(4,441)	(30,578)	4,715	(4,077)
Non Cash	(22,257)	(2,204)	0	0
<b>(A) CF from Operating Activities</b>	<b>1,79,117</b>	<b>1,90,559</b>	<b>2,38,950</b>	<b>2,54,376</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(18,095)	(25,464)	(18,922)	(19,030)
<b>Free Cash Flow</b>	<b>1,61,022</b>	<b>1,65,095</b>	<b>2,20,028</b>	<b>2,35,346</b>
(Inc.)/ Dec. in Investments	(33,499)	(2,179)	0	0
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(51,594)</b>	<b>(27,643)</b>	<b>(18,922)</b>	<b>(19,030)</b>
Issue of Equity/ Preference	24,774	14,428	0	0
Inc./ (Dec.) in Debt	(527)	(579)	0	0
Interest exp net	(418)	(457)	(480)	(504)
Dividend Paid (Incl. Tax)	(1,51,504)	(1,57,069)	(1,57,069)	(1,57,069)
Other	(314)	4,626	364	0
<b>(C) CF from Financing</b>	<b>(1,27,990)</b>	<b>(1,39,052)</b>	<b>(1,57,186)</b>	<b>(1,57,573)</b>
Net Change in Cash	(467)	23,864	62,842	77,773
<b>Opening Cash balances</b>	<b>38,779</b>	<b>38,313</b>	<b>62,177</b>	<b>1,25,019</b>
<b>Closing Cash balances</b>	<b>38,313</b>	<b>62,177</b>	<b>1,25,019</b>	<b>2,02,792</b>

E – Estimates

**Notes**

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	> 20%
<b>Accumulate</b>	10 to 20%
<b>Reduce</b>	0 to 10%
<b>Sell</b>	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-23	Accumulate	474	449
Oct-23	Accumulate	474	450
Dec-23	Accumulate	474	453
Jan-24	Reduce	464	450

\*Price as on recommendation date

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