

**BUY**

TP: Rs 521 | ▲ 25%

ITC

| Consumer Staples

| 02 August 2025

## Managing through inflation

- Sales 21% higher vs consensus on one off sales in Agribusiness. EBITDA also 9% above cons.
- Cigarettes (78% EBIT contribution) inflation was higher than expected and will persist for two more quarters
- While 2 more quarters remain inflationary, the prospects of cigarette volume gains from illicit trade and FMCG scale up remain intact. **BUY**

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**Earnings outperformance:** ITC reported 1QFY26 sales of Rs215bn, +21% YoY, with EBITDA +4% as margins contracted 510bps to 31.7%. Sales came in 18% above cons (14% above our est), while EBITDA was 9% above cons and 5% above our estimates. This outperformance was driven by the in the Agribusiness segment. Commodity costs remained inflationary on high-cost inventory. Pricing, mix and efficiencies helped partly offset inflation.

**Segment trends:** FMCG Cigarette sales +7% mainly driven by mid-single digits volume growth on share gains from illicit trade and continued focus on premium portfolio. FMCG Others sales +5% driven by food and personal care as beverages were impacted by unseasonal rains. Notebooks business continued to be slow as lower paper prices drive competitor discounting. Agri business sales +39% on one off trading opportunities along with continued growth in leaf tobacco, spices and coffee. Paper revenues rose +7% with continued competition from lower-priced Chinese supplies as demand conditions remained weak.

**Broad based cost pressures:** Margin pressures remained as Cigarette margins deteriorated 190bps on leaf tobacco inflation. FMCG margins were down 180bps due to inflation in edible oil, wheat, flour etc. Paperboards, Paper & Packaging segment margins deteriorated 580bps due to higher wood costs and weak demand. Agribusiness margins declined 45bps. Cost pressure will persist for 2 more quarters as higher cost inventory moves through the income statement.

**Valuation and our view:** While the current gross margins are under pressure, long term fundamentals remain in cigarettes (share gains from illicit trade) and FMCG businesses (scale up). We maintain BUY. Our SOTP-based TP is now revised from Rs 515 to Rs 521 mainly due to roll forward to 12m to June 2028.

(Rs mn)	Q1FY25	Q1FY26	YoY (%)	BoB (%)	Consensus (%)
Sales	177,778	214,948	21	14	18
EBITDA	65,448	68,164	4	5	9
EBITDA margin (%)	36.8	31.7	(510bps)	(290bps)	(266bps)

Source: Company, Bloomberg, BOBCAPS Research

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ITC IN/Rs 416
Market cap	US\$ 59.3bn
Free float	71%
3M ADV	US\$ 90.9mn
52wk high/low	Rs 529/Rs 390
Promoter/FPI/DII	0%/43%/57%

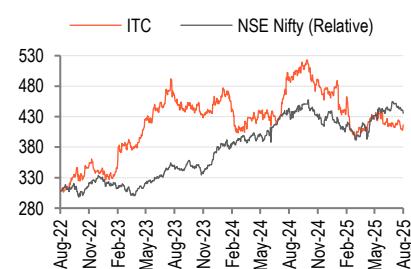
Source: NSE | Price as of 1 Aug 2025

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	753,233	837,663	912,587
EBITDA (Rs mn)	259,782	280,545	327,192
Adj. net profit (Rs mn)	197,306	214,882	246,599
Adj. EPS (Rs)	16.1	17.2	19.7
Consensus EPS (Rs)	16.1	17.3	19.1
Adj. ROAE (%)	28.5	28.6	30.7
Adj. P/E (x)	25.9	24.3	21.1
EV/EBITDA (x)	20.0	18.5	15.9
Adj. EPS growth (%)	(2.3)	6.8	14.8

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## 1QFY26 result review

### Earnings revisions

Our sales are revised slightly higher across the forecast period. Cigarette business is doing better than expected while FY26 also gets the benefit of stronger than expected one off trading sales benefit in agribusiness. Margins are lower in FY26 reflecting cost pressures in the overall but more so in cigarette where margin contraction accelerated from -80bps in 4QFY25 to -190bps in 1QFY26. Our forecasts in FY27 and FY28 are relatively unchanged as we expect inflation to be transitory with its impact slowing as we progress through FY26.

**Fig 1 – ITC earnings revisions table**

(Rs mn)	New	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY25	FY26	FY26	Change	FY27	FY27	Change	FY28	FY28	Change
Sales	753,233	837,663	829,346	1	912,587	900,332	1	976,632	962,655	1
EBITDA	259,782	280,545	288,794	(3)	327,192	324,906	1	364,706	365,096	0
% of Revenue	34.5	33.5	34.8	(133bps)	35.9	36.1	(23bps)	37.3	37.2	14bps
Adjusted NPAT	197,306	214,882	221,239	(3)	246,599	245,304	1	259,024	254,668	2
Adjusted EPS	16.07	17.17	17.70	(3)	19.70	19.60	1	20.69	20.35	2

Source: Company, Bloomberg, BOBCAPS Research

### Valuation

We value ITC using SOTP. We summarise our assumptions in the below table.

**Fig 2 – ITC SOTP valuation**

(Rs mn)	12m to June 2028		
	EBITDA	EV/EBITDA (x)	EV
Cigarettes	252,346	15.9x	4,018,609
Agri	24,470	15.8x	386,619
Paper	21,448	5.0x	107,242
	Revenue	EV/sales (x)	EV
FMCG Others	252,672	7.8x	1,970,844
Enterprise Value			6,483,314
Less: Net debt			(40,011)
Market Value (Rs mn)			6,523,324
No of share (mn)			12,512
Target Price (Rs)			521

Source: Company, Bloomberg, BOBCAPS Research

### Key risks

Key downside risks to our estimates are:

- weaker than expected rural/urban recovery,
- a further increase in duty on cigarettes, and
- continued input cost inflation.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Total revenue</b>	<b>709,369</b>	<b>708,810</b>	<b>753,233</b>	<b>837,663</b>	<b>912,587</b>
EBITDA	256,649	262,544	259,782	280,545	327,192
Depreciation	18,090	18,164	16,463	18,107	20,292
EBIT	238,559	244,380	243,319	262,439	306,900
Net interest inc./(exp.)	(432)	(460)	(451)	(519)	(519)
Other inc./(exp.)	19,805	27,278	25,297	25,795	25,297
Exceptional items	(729)	(76)	0	0	0
EBT	258,661	271,274	268,165	287,714	331,678
Income taxes	64,384	63,885	68,905	72,561	83,654
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	490	276	1,104	3,027	2,388
<b>Reported net profit</b>	<b>194,767</b>	<b>207,665</b>	<b>200,365</b>	<b>218,181</b>	<b>250,412</b>
Adjustments	(729)	(76)	0	0	0
<b>Adjusted net profit</b>	<b>194,039</b>	<b>204,663</b>	<b>197,306</b>	<b>214,882</b>	<b>246,599</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	46,590	47,978	48,073	55,587	57,780
Other current liabilities	55,714	55,947	61,483	61,483	61,483
Provisions	3,598	3,952	3,832	3,832	3,832
Debt funds	388	113	913	913	913
Other liabilities	57,153	61,372	62,627	62,627	62,627
Equity capital	12,428	12,485	12,514	12,514	12,514
Reserves & surplus	682,960	736,415	691,465	737,740	790,873
Shareholders' fund	695,388	748,900	703,979	750,254	803,387
<b>Total liab. and equities</b>	<b>858,830</b>	<b>918,262</b>	<b>880,907</b>	<b>934,695</b>	<b>990,022</b>
Cash and cash eq.	4,634	6,259	6,200	(6,681)	(1,979)
Accounts receivables	29,562	40,258	47,197	52,487	54,322
Inventories	117,712	141,529	158,361	157,572	155,601
Other current assets	15,618	13,832	13,719	13,719	13,719
Investments	295,580	312,640	347,198	389,381	407,700
Net fixed assets	211,171	230,823	174,289	214,366	213,761
CWIP	29,847	28,511	10,876	10,876	10,876
Intangible assets	27,459	26,878	27,281	27,281	27,281
Deferred tax assets, net	520	722	880	880	880
Other assets	126,728	116,810	94,907	96,747	98,587
<b>Total assets</b>	<b>858,830</b>	<b>918,262</b>	<b>880,907</b>	<b>956,626</b>	<b>980,747</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
<b>Cash flow from operations</b>	<b>188,776</b>	<b>171,789</b>	<b>176,270</b>	<b>239,820</b>	<b>273,552</b>
Capital expenditures	(27,430)	(35,625)	(22,787)	(58,636)	(18,252)
Change in investments	(94,376)	38,451	1,012	(42,183)	(18,319)
Other investing cash flows	64,482	12,802	17,817	0	0
<b>Cash flow from investing</b>	<b>(57,323)</b>	<b>15,628</b>	<b>(3,958)</b>	<b>(100,819)</b>	<b>(36,571)</b>
Equities issued/Others	24,774	14,508	8,868	0	0
Debt raised/repaid	(598)	(685)	(540)	20,000	(35,000)
Interest expenses	(414)	(463)	(500)	0	0
Dividends paid	(153,971)	(198,992)	(177,628)	(171,906)	(197,279)
Other financing cash flows	149	121	(574)	0	0
<b>Cash flow from financing</b>	<b>(130,060)</b>	<b>(185,510)</b>	<b>(170,374)</b>	<b>(151,906)</b>	<b>(232,279)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,392</b>	<b>1,907</b>	<b>1,938</b>	<b>(12,905)</b>	<b>4,703</b>
<b>Closing cash &amp; cash eq.</b>	<b>4,633</b>	<b>6,259</b>	<b>6,200</b>	<b>(6,681)</b>	<b>(1,979)</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	15.5	16.4	16.1	17.2	19.7
Adjusted EPS	15.4	16.4	16.1	17.2	19.7
Dividend per share	12.4	15.9	14.2	13.7	15.8
Book value per share	56.1	60.4	56.8	60.5	64.8

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	7.3	7.3	6.9	6.2	5.7
EV/EBITDA	20.2	19.8	20.0	18.5	15.9
Adjusted P/E	27.0	25.3	25.9	24.3	21.1
P/BV	7.4	6.9	7.3	6.9	6.4

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	75.0	76.5	74.7	74.7	74.3
Interest burden (PBT/EBIT)	108.4	111.0	110.2	109.6	108.1
EBIT margin (EBIT/Revenue)	33.6	34.5	32.3	31.3	33.6
Asset turnover (Rev./Avg TA)	82.6	77.2	85.5	87.6	93.1
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.3	1.3	1.2
<b>Adjusted ROAE</b>	<b>27.9</b>	<b>27.7</b>	<b>28.5</b>	<b>28.6</b>	<b>30.7</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	16.9	(0.1)	6.3	11.2	8.9
EBITDA	24.2	2.3	(1.1)	8.0	16.6
Adjusted EPS	22.4	6.5	(2.3)	6.8	14.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	36.2	37.0	34.5	33.5	35.9
EBIT margin	33.6	34.5	32.3	31.3	33.6
Adjusted profit margin	27.4	29.3	26.6	25.7	27.0
Adjusted ROAE	27.9	27.7	28.5	28.6	30.7
ROCE	34.3	32.6	34.5	34.9	38.2

### Working capital days (days)

Receivables	15	21	23	23	22
Inventory	148	190	181	156	148
Payables	59	64	55	55	55

### Ratios (x)

Gross asset turnover	2.2	2.0	2.4	2.2	2.3
Current ratio	2.9	3.0	3.1	3.1	3.3
Net interest coverage ratio	552.2	531.7	540.0	505.4	591.0
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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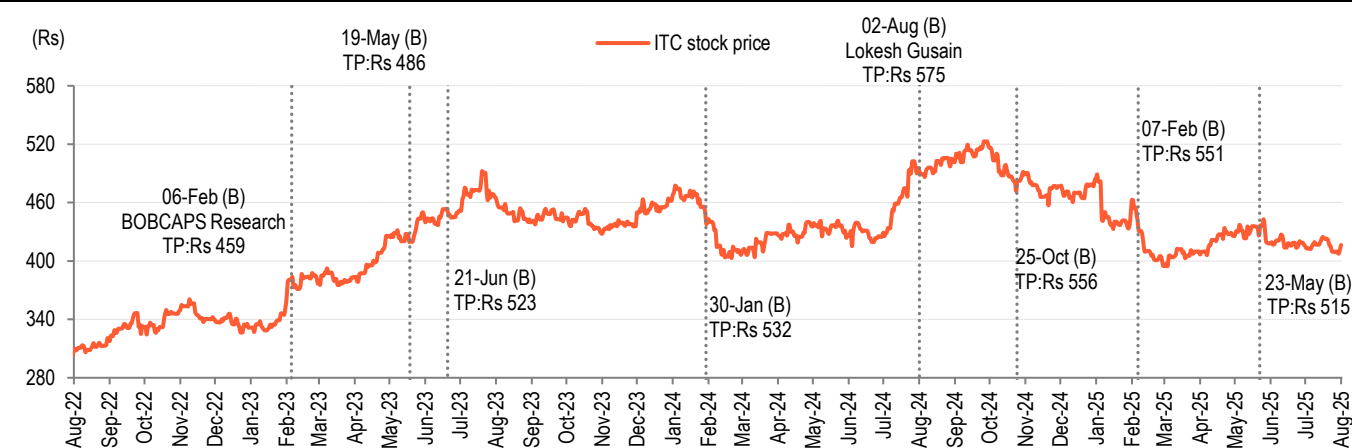
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**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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