

BUY

TP: Rs 515 | ▲ 21%

ITC

Consumer Staples

23 May 2025

Moving through inflation

- Sales 3% higher vs consensus likely on strong cigarette volumes. EBITDA 5% above cons. on higher margins
- Cigarettes (78% EBIT contribution) inflation is largely offset with pricing / mix while Other FMCG (7% EBIT contribution) remains pressured
- While 2-3 quarters remain inflationary, the prospects of cigarette volume gains from illicit trade and FMCG scale up remain intact. **BUY**

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Broadly in line result: ITC reported 4QFY25 sales of Rs188bn, +5% YoY, with EBITDA down 2% as margins contracted 225bps to 34.7%. Sales came in 3% above cons (1% below our est), while EBITDA was 5% above cons and 1% below our est. Cost trends remained relatively unchanged vs 3Q, as pressure continued across major ingredients. Pricing, mix and efficiencies helped partly offset inflation.

Segment trends: FMCG Cigarette sales +6% mainly driven by volume growth on share gains from illicit trade. FMCG Others sales +4% driven by food and personal care partly offset by weakness in notebooks as lower paper prices continued to drive competitor discounting. Agri business sales +18% on leaf tobacco, spices and coffee. Paper revenues rose only +6% with continued competition from lower-priced Chinese supplies as demand conditions remained weak.

Broad based cost pressures: Margin pressures remained as Cigarette margins deteriorated 80bps on leaf tobacco inflation. FMCG margins were down 275bps due to inflation in edible oil, wheat, flour etc. Paperboards, Paper & Packaging segment margins deteriorated 515bps due to higher wood costs and weaker demand. Agribusiness margins improved 90bps with the rise in commodity costs. Inflation will likely persist for 2-3 quarters, however, margin deterioration will slow over FY26e.

Valuation and our view: While the current trend is inflationary, and calibrated pricing and mix is gradually offsetting inflation, long term fundamentals remain in cigarette (share gains from illicit trade) and FMCG businesses (scale up). We maintain BUY. Our SOTP-based TP is now revised from Rs 556 to Rs 515.

(Rs mn)	Actual			Reported vs (%)	
	Q4FY24	Q4FY25	YoY (%)	BoB	Consensus
Sales	179,227	187,650	5	(1)	3
EBITDA	66,262	65,194	(2)	(1)	5
EBITDA margin (%)	37.0	34.7	(223bps)	(6bps)	37bps

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ITC IN/Rs 426
Market cap	US\$ 61.8bn
Free float	71%
3M ADV	US\$ 72.9mn
52wk high/low	Rs 529/Rs 390
Promoter/FPI/DII	0%/43%/57%

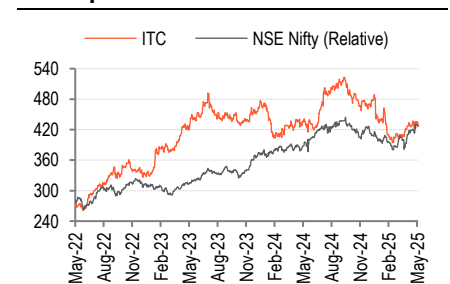
Source: NSE | Price as of 22 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	753,233	829,346	900,332
EBITDA (Rs mn)	259,782	288,794	324,906
Adj. net profit (Rs mn)	197,306	221,239	245,304
Adj. EPS (Rs)	16.1	17.7	19.6
Consensus EPS (Rs)	16.1	17.6	19.3
Adj. ROAE (%)	28.5	29.4	30.5
Adj. P/E (x)	26.5	24.1	21.7
EV/EBITDA (x)	20.5	18.4	16.4
Adj. EPS growth (%)	(2.3)	10.0	10.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



4QFY25 result review

Earnings revisions

We slightly reduce our sales forecasts in cigarettes but its offset by ITC's M&A (Paper/FMCG). Margins also lower in FY26 as FMCG inflation continues to be high along with slower sales growth in cigarettes and overall margin dilutive M&As. We now expect margin recovery in 4QFY26 on M&A synergies and anniversary of commodity inflation combined with pricing actions that are already initiated. For this reason, our EBITDA margin forecasts are higher for FY27.

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	829,346	833,080	0	900,332	901,682	0	962,655	n/a	n/a
EBITDA	259,782	288,794	296,645	(3)	324,906	321,072	1	357,937	n/a	n/a
% of Revenue	34.5	34.8	35.6	(79bps)	36.1	35.6	48bps	37.2	n/a	n/a
Adjusted NPAT	197,306	221,239	223,408	(1)	245,304	241,450	2	254,668	n/a	n/a
Adjusted EPS	16.07	17.68	17.90	(1)	19.60	19.30	2	20.35	n/a	n/a

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)	FY27E EBITDA	EV/EBITDA (x)	EV
Cigarettes	248,286	15.9x	3,953,949
Agri	22,453	15.8x	354,757
Paper	25,044	5.0x	125,220
	FY27E Revenue	EV/sales (x)	EV
FMCG Others	249,589	7.9x	1,971,749
Enterprise Value			6,405,676
Less: Net debt			(40,011)
Market Value (Rs mn)			6,445,687
No of share (mn)			12,512
Target Price (Rs)			515

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
Total revenue	709,369	708,810	753,233	829,346	900,332
EBITDA	256,649	262,544	259,782	288,794	324,906
Depreciation	18,090	18,164	16,463	18,070	20,292
EBIT	238,559	244,380	243,319	270,725	304,615
Net interest inc./(exp.)	(432)	(460)	(451)	(451)	(451)
Other inc./(exp.)	19,805	27,278	25,297	25,297	25,297
Exceptional items	(729)	(76)	0	0	0
EBT	258,661	271,274	268,165	295,571	329,461
Income taxes	64,384	63,885	68,905	74,484	83,024
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	490	276	1,104	3,294	2,350
Reported net profit	194,767	207,665	200,365	224,381	248,787
Adjustments	(729)	(76)	0	0	0
Adjusted net profit	194,039	204,663	197,306	221,239	245,304

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	46,590	47,978	48,073	52,877	56,137
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	738,854	791,398
Shareholders' fund	695,388	748,900	703,979	751,369	803,912
Total liab. and equities	858,830	918,262	880,907	933,100	988,903
Cash and cash eq.	4,634	6,259	6,200	2,506	5,764
Accounts receivables	29,562	40,258	47,197	51,966	53,593
Inventories	117,712	141,529	158,361	149,892	151,174
Other current assets	15,618	13,832	13,719	13,719	13,719
Investments	295,580	312,640	347,198	387,276	404,647
Net fixed assets	211,171	230,823	174,289	213,809	212,993
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
Total assets	858,830	918,262	880,907	954,950	979,513

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operations	188,776	171,789	176,270	251,406	269,878
Capital expenditures	(27,430)	(35,625)	(22,787)	(58,054)	(18,007)
Change in investments	(94,376)	38,451	1,012	(40,078)	(17,371)
Other investing cash flows	64,482	12,802	17,817	0	0
Cash flow from investing	(57,323)	15,628	(3,958)	(98,132)	(35,378)
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)	(176,991)	(196,243)
Other financing cash flows	149	121	(574)	0	0
Cash flow from financing	(130,060)	(185,510)	(170,374)	(156,991)	(231,243)
Chg in cash & cash eq.	1,392	1,907	1,938	(3,718)	3,258
Closing cash & cash eq.	4,633	6,259	6,200	2,506	5,764

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	15.5	16.4	16.1	17.7	19.6
Adjusted EPS	15.4	16.4	16.1	17.7	19.6
Dividend per share	12.4	15.9	14.2	14.1	15.7
Book value per share	56.1	60.4	56.8	60.6	64.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	7.5	7.5	7.1	6.4	5.9
EV/EBITDA	20.7	20.2	20.5	18.4	16.4
Adjusted P/E	27.6	25.9	26.5	24.1	21.7
P/BV	7.6	7.1	7.5	7.0	6.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	75.0	76.5	74.7	74.9	74.5
Interest burden (PBT/EBIT)	108.4	111.0	110.2	109.2	108.2
EBIT margin (EBIT/Revenue)	33.6	34.5	32.3	32.6	33.8
Asset turnover (Rev./Avg TA)	82.6	77.2	85.5	86.8	91.9
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.3	1.3	1.2
Adjusted ROAE	27.9	27.7	28.5	29.4	30.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Revenue	16.9	(0.1)	6.3	10.1	8.6
EBITDA	24.2	2.3	(1.1)	11.2	12.5
Adjusted EPS	22.4	6.5	(2.3)	10.0	10.9

Profitability & Return ratios (%)

EBITDA margin	36.2	37.0	34.5	34.8	36.1
EBIT margin	33.6	34.5	32.3	32.6	33.8
Adjusted profit margin	27.4	29.3	26.6	26.7	27.2
Adjusted ROAE	27.9	27.7	28.5	29.4	30.5
ROCE	34.3	32.6	34.5	36.0	37.8

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	3.2	3.3
Net interest coverage ratio	552.2	531.7	540.0	600.8	676.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

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BUY – Expected return >+15%

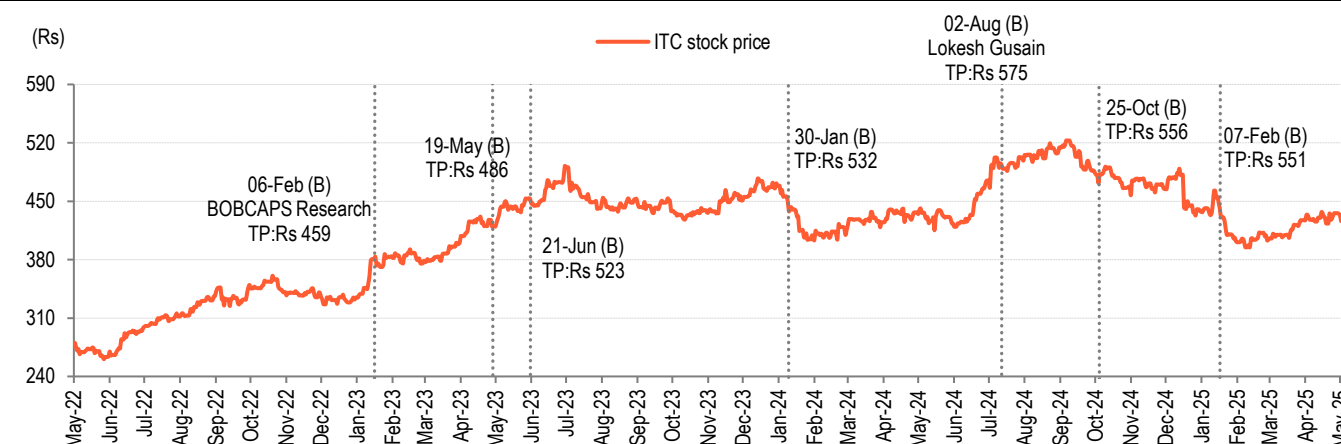
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ITC (ITC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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