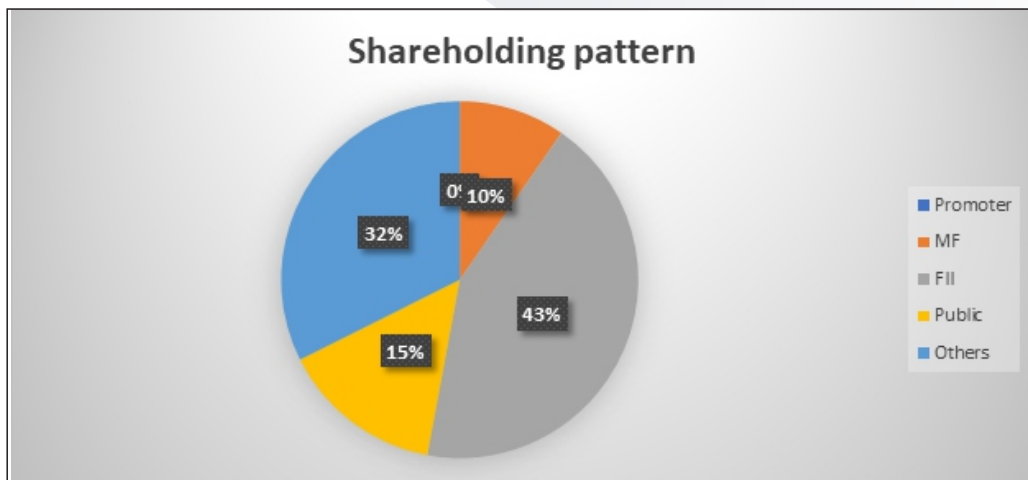


ITC
Techno Funda
Stock Outlook



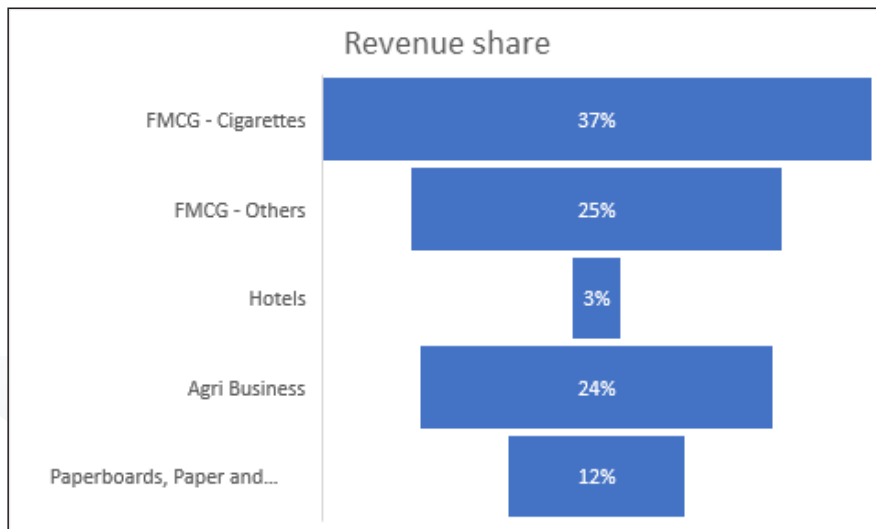
Indbank
Merchant Banking Services Ltd
(A Subsidiary of Indian Bank)

STOCK DETAILS	
NSE Scrip code	ITC
BSE Scrip code	500875
Market cap (in Cr)	5,32,412
52-week High/Low (in Rs)	500 / 370
Current Price	427
Price Target (in Rs)	470



COMPANY OVERVIEW

ITC is the largest cigarette manufacturer and seller in the India with a share of 80% in organized domestic cigarette market. The company operates in five business segments — FMCG Cigarettes, FMCG Others, Hotels, Paperboards, Paper and Packaging, and Agri Business. The company's Leaf Tobacco Business is the largest Indian exporter of unmanufactured tobacco in India.



OUTLOOK

India's GDP growth remains above long-term average, trade deficit is showing signs of cooling and asset quality of banks is consistently improving.

Fast-Moving Consumer Goods (FMCG) are highly sought after because they are generally low priced and high utility products that find use in our day to day lives. They also save a lot of time and effort making FMCG goods more attractive.

The advent and scale of e-commerce platforms and the ever-expanding distribution network has have brought FMCG products to the door step of a wider market.

In line with its strategy of sustained value creation, the ITC management has approved to demerge its hotel business into a new entity, ITC Hotels Ltd. By doing so, the company aims to capitalize on the shift in the tourism industry in India, which is currently drawing global attention. The Mementos, Welcom Hotel, Storii, Fortune and Welcom Heritage brands will undergo phased openings over the next few quarters. Overall, 25 hotels are expected to be operational in the next 24 months.

ITC's food business is expected to benefit from its distinctive sourcing capabilities by offering cutting edge technology to the farmers. The company's Climate Smart Agriculture programme covers over 23 lakh acres and about 7.5 lakh farmers in the country.

Despite the Cigarettes Segment witnessing consolidation on a high base after a period of sustained growth momentum, the ITC's endeavor to offer differentiated and premium products is likely to support growth.

The company has recently commissioned a facility to manufacture and export nicotine and nicotine derivative products with exports expected to commence from Q4FY24

The shares of ITC had taken a slight plunge on 12th March 2024 after potential \$2-3 billion stake sale by British American Tobacco company (BAT). However, the stocks bounced back handsomely in the following session with a healthy gap up which has turned into a support area indicating that investors are optimistic about the prospects of the company. The long-term impact is dependent on a successful breakout above 430 which is likely to provide a stiff resistance.

The sale is likely to bring down BAT's stake in ITC from 29% to 25.5%. It plans to use the proceeds for stock buybacks, including 700 million pound (\$895.30 million) worth of shares in 2024.

Strong quarterly performance by FMCG and hotels while cigarettes and agri segments saw muted growth

- FMCG – Others segment saw 7.6% yoy growth in revenue driven by Staples, Dairy, Beverages, Fragrances, Personal Wash, Homecare, Agarbattis and Notebooks
- This was the best ever quarter for the Hotels segment with segment revenue and segment PBIT up 18% and 57% YoY respectively. Growth was driven by upbeat occupancy owing to events like the ICC cricket world cup
- Agri Business Segment recorded 14% yoy growth despite being impacted by trade restrictions on agri commodities and climatic uncertainties
- FMCG Cigarettes revenue was up by 2.3% YoY. The steep rise in cost of leaf tobacco & certain other inputs and increase in taxes was largely mitigated through improved mix, strategic cost management and calibrated pricing

FINANCIALS

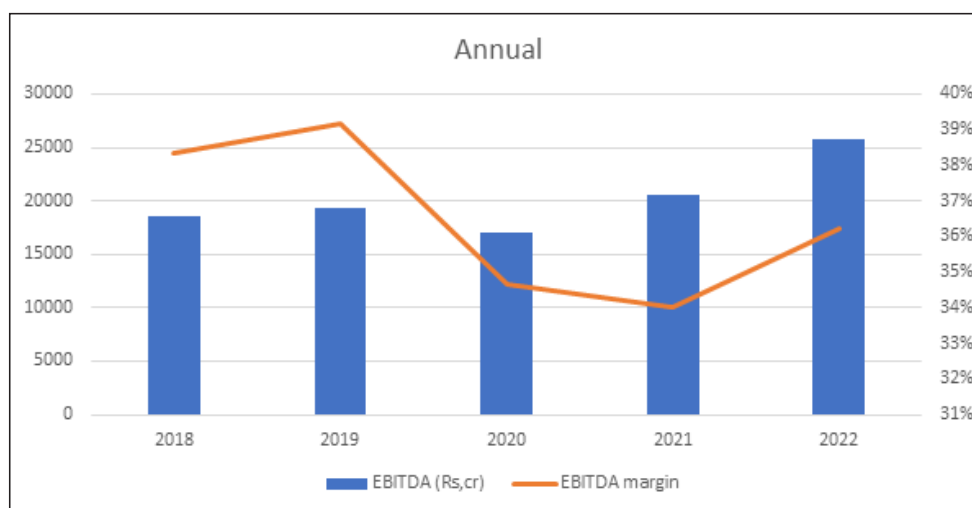
ANNUAL (In Rs Cr.)

	Mar-22	Mar-23	Y-O-Y
Sales	60,644.54	70,919.03	16.9%
Expenses	40,021.39	45,214.77	13.0%
Operating Profit	20,623.15	25,704.26	24.6%
Other Income	1,909.72	2,097.64	9.8%
Depreciation	1,732.41	1,809.01	4.4%
Interest	59.99	77.77	29.6%
Profit before tax	20,740.47	25,915.12	24.9%
Tax	5,237.34	6,438.40	22.9%
Net profit	15,242.66	19,191.66	25.9%
EPS	12.37	15.44	24.8%

Despite subdued rural demand, the company's overall revenue increased by 16.9% while PAT grew by 25.9% owing to enhanced distribution footprint and sustained focus on product premiumization. 12 of ITC's hotels became the first in the world to receive the LEED Zero Carbon Certification.

QUARTERS (In Rs. Cr) (Consolidated)

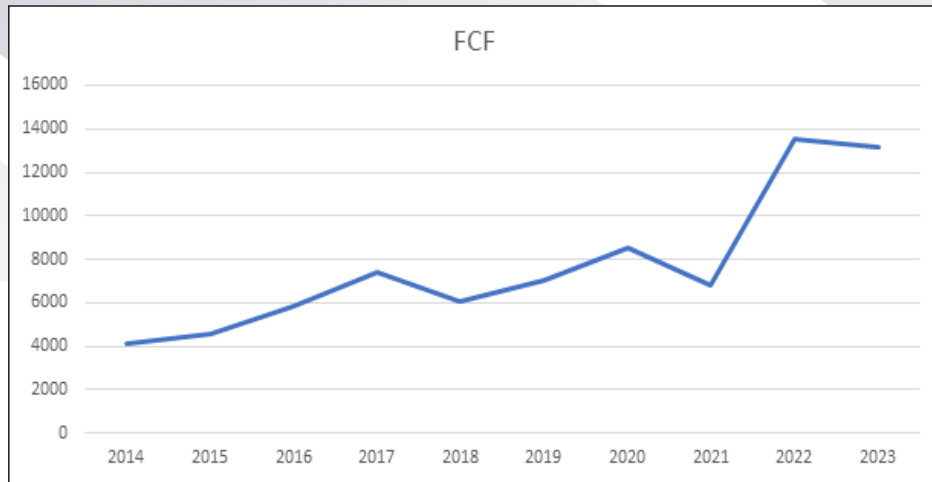
	Sep-23	Sep-23	Dec-23	Y-O-Y
Sales	17,704.52	17,774.47	18,019.37	1.8%
Expenses	10,999.82	11,320.23	11,515.55	5%
Operating Profit	6,704.70	6,454.24	6,503.82	-3.0%
Other Income	595.43	664.88	651.31	9%
Depreciation	447.11	453.04	459.45	3%
Interest	9.21	9.87	13.60	47.67%
Profit before tax	6,843.81	6,656.21	6,682.08	-2%
Tax	1,773.72	1,700.31	1,281.57	-28%
Net profit	5,006.65	4,898.07	5,335	7%
OPM	37.9%	36.3%	36.1%	



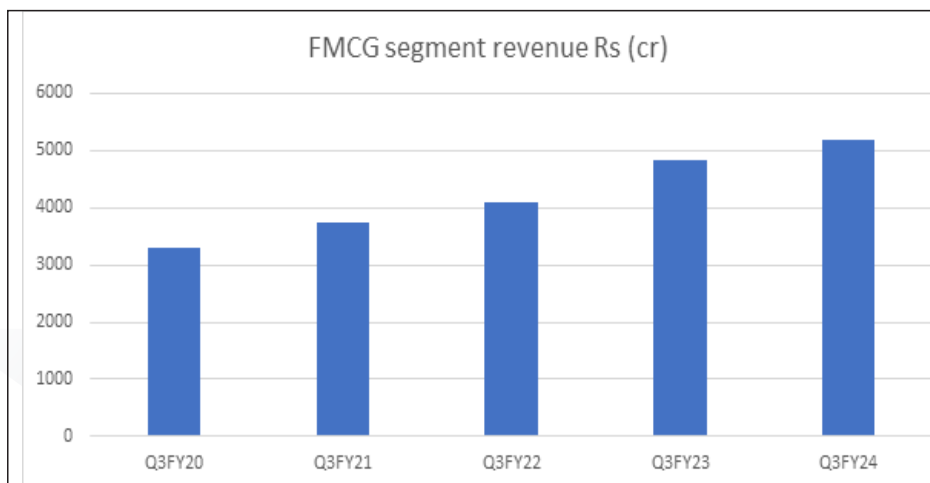
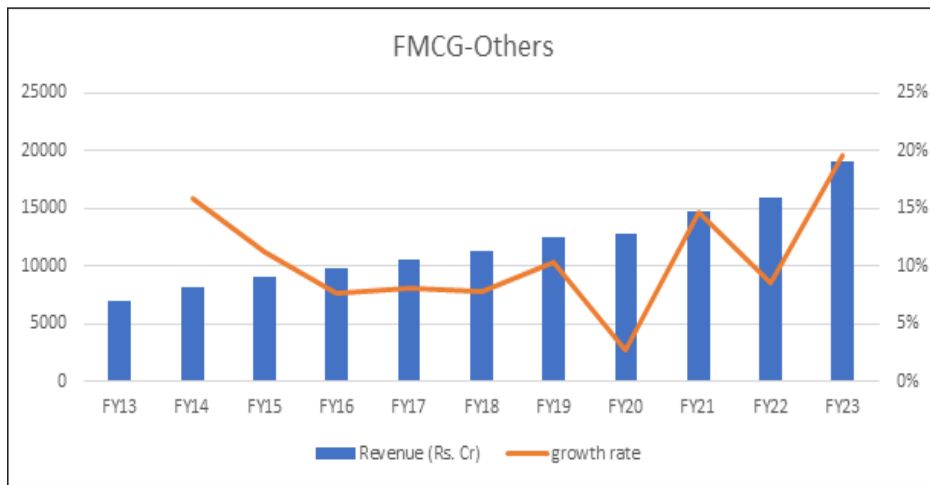
FINANCIAL RATIOS

	FY22	FY23
Operating Profit Margin	33.6	35.6
Net Profit Margin	25.5	26.9
Debtors Turnover	29.2	32.5
Inventory Turnover	6.1	6.7
Current Ratio	2.7	2.8
Return on Net Worth	25	29
Return on Capital		
Employed	33.33	38.72

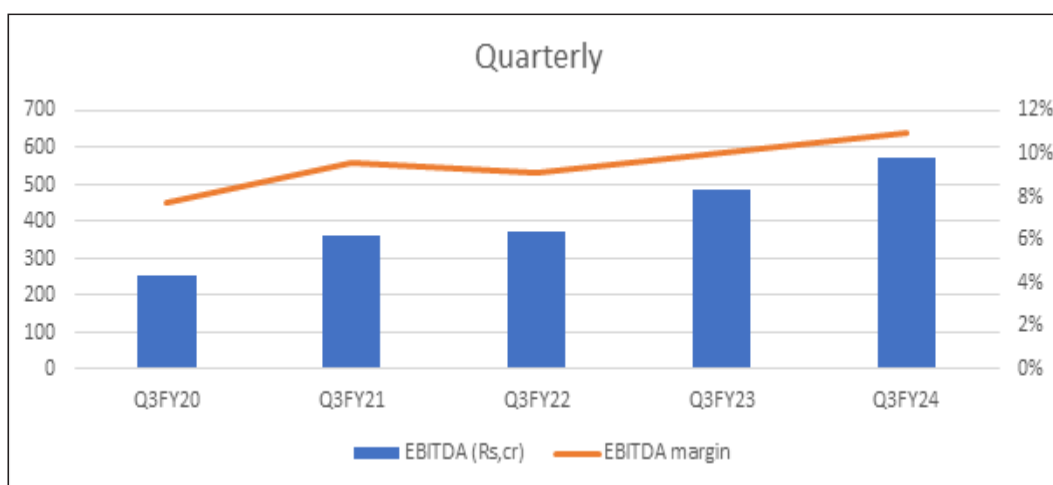
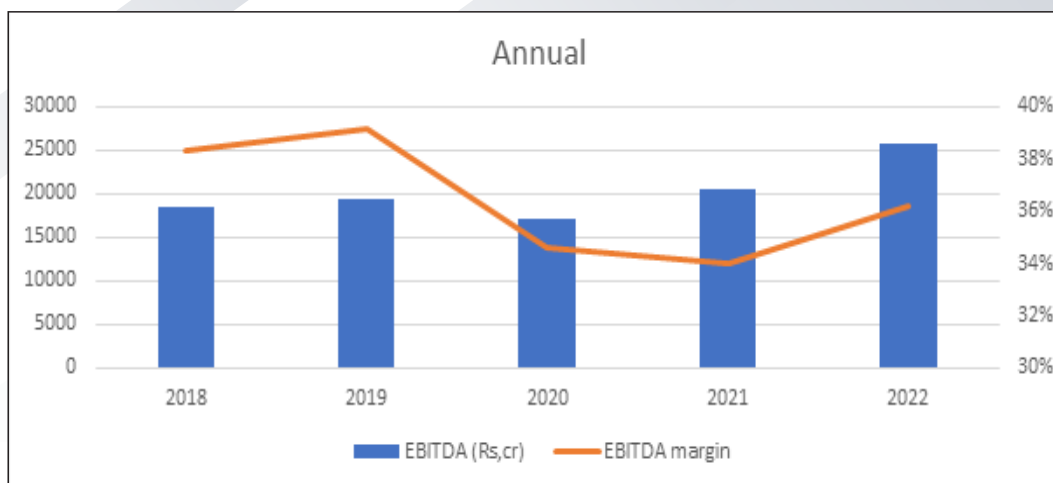
A healthy trend in the growth of free cash flow which indicates the strength in core operations



Consistent growth in FMCG-Others has been a key driver for ITC; the growth rate has been peaking in the last couple of years.



Expansion in margins led by premiumization and cost management



INVESTMENT RATIONALE

- ITC retained its 'AA' rating by MSCI-ESG for the 5th successive year - the highest amongst global tobacco companies.
- Packaging and Printing Business is a leading provider of superior value-added packaging solutions.
- ITC's Agri Business is also one of India's largest exporters of agri commodities and provides competitive advantage to ITC's FMCG Businesses through distinctive sourcing capabilities
- Among top three corporates in the private sector in terms of contribution to the Exchequer over the Years
- Sustained 'AA' rating by MSCI for the fifth consecutive year
- included in the Dow Jones Sustainability Emerging Markets Index for the third year in a row
- ITC enjoys leadership position in the branded atta, cream biscuits, notebooks and dhoop segments.
- The first 12 LEED Zero Carbon hotels in the world and the first 2 LEED Zero Water properties are ITC

Hotels.

- Majority of planned stake sale from British American Tobacco has been carried out, which was an overhang for the stock.

CHALLENGES

- The company's outlook could largely be influenced by agricultural commodity prices which remain uncertain
- Weather conditions which have been erratic for the past few years
- Pressure on legal cigarette industry due to growth in illicit duty-evaded cigarette consumption
- Taxes on cigarettes which remain one of the highest in India

ESG INITIATIVES

ITC is the only enterprise in the world to be water positive for 21 years, carbon positive for 18 years and solid waste recycling positive for 16 years. Nearly 57% of the total energy used by the business is generated from renewable sources. Its brands, Fiamo, Vivel and Savlon have been torchbearers in adopting sustainable packaging. The Fiamo and Vivel wrapped soap portfolio has also transitioned to re-cyclable mono material while Savlon soap wrappers now contain 70% recycled plastic in the PET film used. ITC sustained its 'AA' rating by MSCI-ESG for the 5th successive year - the highest amongst global tobacco companies.

TECHNICAL ANALYSIS

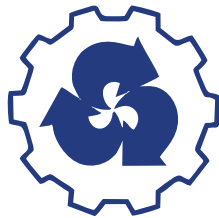


The stock post its recent correction is seeing buying momentum picking up from oversold condition. Stock has been forming a base and is breaking out of recent consolidation. This can take the stock price to levels of 460-470 in medium to long term. Investors can consider buying the stock keeping support levels of 398 as stop loss.

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