INVasset Corporate Insights

ITC Limited

2nd April, 2024

INVASSET

India's Best Performing and Most Customer Centric PMS

Established in 1910, ITC Limited stands as a stalwart in India's corporate landscape, demonstrating excellence across diverse sectors. With a robust presence spanning over a century, ITC has evolved into a conglomerate operating across five core business segments, namely FMCG Cigarettes, FMCG Others, Hotels, Paperboards, Paper and Packaging, and Agri Business. ITC stands as a beacon of excellence, leveraging its century-long legacy to drive innovation, sustainability, and shareholder value. With a diversified business portfolio, robust financial performance, and strategic initiatives poised to propel growth, ITC remains a compelling investment opportunity in India's dynamic corporate landscape.

FMCG - Cigarettes: Leading Market Share and Profitability: In the FMCG Cigarettes segment, ITC reigns supreme as the undisputed leader, commanding over 80% of the organized domestic cigarette market. A testament to its dominance, the company boasts an extensive portfolio of esteemed brands, including Insignia, India Kings, Classic, and Gold Flake, among others. This segment contributes 40% to its total revenue and significantly drives its profitability. However, it grapples with challenges posed by the prevalence of illicit cigarette trade, posing a threat to legal market growth.

FMCG - Diversified Portfolio and Expansive Reach: Beyond cigarettes, ITC's FMCG portfolio encompasses a diverse array of products across packaged foods, personal care, stationary, apparels, and agarbattis. With 25 mother brands under its belt, including Aashirvaad, Sunfeast, Savlon, and Classmate, the company enjoys widespread consumer resonance. Notably, its direct-to-consumer platform, 'ITC e-Store,' operates seamlessly across 24,000+ pin codes, enhancing accessibility and consumer engagement.

Hotels Business: Exemplary Growth and Distinctive Brands In the hospitality domain, ITC Hotels stands out as one of India's fastest-growing chains, boasting 108 properties across diverse market segments. Its portfolio encompasses four distinct brands, namely ITC Hotels, Welcom hotels, Fortune Hotels, and Welcom Heritage, each catering to unique consumer preferences. Recent expansions include the addition of three new properties, further consolidating its market presence and enhancing service offerings.

Agri Business: Global Exporter and Innovation: ITC's Agri Business segment emerges as the second-largest exporter of agricultural products from India, dealing in a spectrum of commodities ranging from feed ingredients to processed fruits. Additionally, its stature as India's largest and the world's fifth-largest leaf tobacco exporter underscores its global prominence. Noteworthy advancements include regulatory approvals for manufacturing Nicotine & Nicotine Derivative products conforming to international standards, signaling a commitment to innovation and compliance.

Paperboards, Paper & Packaging: Market Leadership and Sustainability
With a focus on value-added paperboards and sustainable packaging solutions, ITC leads the market in innovation and quality. It boasts a comprehensive range of paperboards, including food-grade boards sourced from renewable and sustainable materials. As India's largest converter of paperboard into high-quality packaging, the company remains steadfast in its commitment to environmental stewardship and product excellence.

Stock Data	
CMP (02-04-2024)	425.30
52 Week High/Low	499.70 / 378.50
Face Value	1.00
Market Cap (In Crs)	5,30,975
Enterprise Value (In Crs)	5,25,896
NSE	ITC
BSE	500875
Bloomberg	ITC:IN
Sector	FMCG

Shareholding Pattern (in %)		
	DEC 23	SEP 23
FII	43.26%	43.34
DII	41.98%	41.94
Government	0.04	0.04
Public	14.71	14.68

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	0.39	14.20	29.19
ITC	3.91	-4.25	10.95

Key Ratios	
P/E	26.0
P/S	7.52
P/B	7.69
Debt To Equity	0.00
ROE	29.1
ROCE	39.0
Dividend Yield	2.99

Q3 FY 24 Result Update

Q3 FY24 Result Comparison (In Rs Cr)					
	Q3 FY 24	Q2 FY 24	Q3 FY 23	QOQ	YOY
Sales	18019	17774	17705	1.38%	1.77%
EBITDA	7155	7119	7300	0.51%	-1.99%
EBIT	6696	6666	6853	0.45%	-2.29%
Net Profit	5407	4965	5080	8.90%	6.44%
EPS	4.28	3.93	4.03	8.91%	6.20%

Result Highlights

In the third quarter of FY24, ITC exhibited a modest yet consistent growth trajectory across key financial metrics compared to the previous two quarters. Sales saw a marginal increase of 1.38% from Q2 FY24, reaching 18,019 crores, while EBITDA and EBIT showed a slight uptick at 7,155 crores and 6,696 crores, respectively, indicating operational stability. However, the net profit surged significantly by 8.90% to 5,407 crores, showcasing robust profitability. Earnings Per Share (EPS) also recorded a noteworthy growth of 8.91%, reaching 4.28, bolstering investor confidence in the company's performance.

Despite a challenging operating environment, ITC's performance in Q3 FY24 demonstrates resilience and strategic acumen, as evident from its sequential growth across key financial parameters. Notably, the company's ability to maintain positive momentum amidst market fluctuations underscores its operational efficiency and market positioning. The year-on-year comparison reveals a consistent growth trajectory, with net profit and EPS increasing by 6.44% and 6.20%, respectively, highlighting the company's sustained profitability and shareholder value creation over time.

Diversified Product Portfolio and Innovation: ITC boasts a diversified product portfolio spanning across multiple segments, including FMCG, hotels, agri-business, and paperboards. The company's emphasis on innovation and product differentiation allows it to cater to a wide range of consumer preferences and adapt to changing market trends. Through continuous investment in research and development, ITC introduces new and innovative products that resonate with consumers, driving growth and market leadership in various industries.

Customer-Centric Approach and Market Responsiveness: ITC's customer-centric approach and market responsiveness enable it to adapt to changing consumer preferences and dynamic market conditions. By closely monitoring market trends, gathering insights, and implementing agile decision-making processes, ITC ensures that its products and services remain relevant and competitive.

Operational Excellence and Cost Management: ITC emphasizes operational excellence and cost management across its business segments, driving efficiency and profitability. Through continuous process optimization, supply chain management, and technology integration, the company achieves operational synergies and cost savings. This focus on efficiency allows ITC to maintain competitive pricing, enhance margins, and deliver value to customers while maximizing shareholder returns.

Strong Brand Equity and Customer Loyalty: ITC's strong brand equity and customer loyalty are key drivers of its success across various business segments. The company's brands, such as Aashirvaad, Sunfeast, Bingo, and WelcomHotels, enjoy widespread recognition and trust among consumers. ITC builds strong relationships with its customers, fostering brand loyalty and driving repeat purchases. This brand strength enables ITC to maintain market leadership positions and sustain long-term growth in competitive markets.

Strategic Investments and Growth Initiatives: ITC's strategic investments and growth initiatives play a crucial role in expanding its presence in both domestic and international markets. The company's focus on capacity expansion, market diversification, and strategic partnerships enables it to capitalize on emerging opportunities and enter new growth segments. ITC remains proactive in pursuing avenues for value creation, positioning itself as a leader in the industries it operates in.

Concall Highlights

Segmental Resilience and Profitability Enhancement: ITC showcased remarkable resilience across its diverse business segments, each demonstrating growth despite market challenges. This underscores the company's ability to adapt to evolving market dynamics and implement strategic measures to sustain profitability. By focusing on segment-specific initiatives to optimize costs, improve operational efficiency, and capitalize on emerging opportunities, ITC successfully bolstered its overall profitability.

Robust FMCG – Others Segment Performance: Within the FMCG – Others segment, which includes staples, dairy, beverages, fragrances, personal wash, homecare, agarbattis, and notebooks, ITC showcased a robust 7.6% YoY revenue growth. This performance, especially amidst subdued demand conditions, underscores the strength of ITC's diversified product portfolio. The segment's ability to sustain growth is indicative of effective market penetration strategies and consumer engagement initiatives.

Margin Expansion and Profit Growth: The expansion of EBITDA margin by 100 basis points YoY to 11.0% in the FMCG – Others segment demonstrates ITC's commitment to enhancing operational efficiency and cost management. This margin expansion, coupled with the substantial increase of 24.1% YoY in Segment PBIT, reflects the segment's profitability and strategic effectiveness. It also highlights ITC's ability to adapt to changing market dynamics while maximizing profitability.

Cigarettes Segment Consolidation: Despite facing consolidation on a high base, the cigarettes segment managed to sustain growth momentum with net segment revenue and segment PBIT growing by 2.3% YoY. This consolidation phase signifies a transition towards stabilizing growth patterns and maintaining market standing. The segment's resilience amidst regulatory challenges and changing consumer preferences underscores its strategic importance within ITC's overall business portfolio.

Premium Offerings and Volume Recovery: ITC's focus on differentiated and premium offerings in the cigarettes segment reflects its strategy to cater to evolving consumer preferences and maintain market leadership. The successful recovery of volumes from illicit trade is a testament to the effectiveness of enforcement actions and strategic initiatives implemented by the company. By emphasizing premiumization and quality, ITC aims to strengthen its competitive position in the tobacco industry.

Record Performance in Hotels Segment: The exceptional performance of the hotels segment, marked by an 18% YoY increase in segment revenue and a staggering 57% YoY growth in segment PBIT, underscores ITC's stronghold in the hospitality sector. This record performance is attributed to factors such as increased occupancy rates, enhanced customer experiences, and effective revenue management strategies. It reflects ITC's ability to capitalize on emerging market opportunities and deliver sustainable growth in the hospitality business.

Margin Expansion in Hotels: The significant expansion of segment EBITDA margin by 470 basis points YoY to 36.2% in the hotels segment signifies efficient cost management, operational optimization, and a focus on delivering value to customers. This margin growth is commendable considering the competitive market dynamics within the hospitality industry. It reflects ITC's commitment to enhancing profitability while maintaining service excellence across its hotel properties.

Demerger Update: The progress in the demerger process, marked by the receipt of no-objection from stock exchanges, highlights ITC's commitment to strategic initiatives aimed at enhancing shareholder value. The demerger is expected to streamline operations, unlock value, and provide greater clarity on the company's business segments, thereby enabling investors to make informed decisions. It represents a significant milestone in ITC's corporate restructuring efforts and long-term growth strategy.

Challenges in Agri Business: The challenges faced by the agri business segment, including trade restrictions on agri commodities and geopolitical tensions, underscore the need for adaptive strategies in a volatile operating environment. Despite these challenges, ITC remains focused on driving sustainable growth by engaging with farmers, promoting climate-smart agriculture, and leveraging technology to enhance productivity and mitigate risks. The company's proactive approach towards addressing agricultural challenges reflects its commitment to creating shared value for all stakeholders.

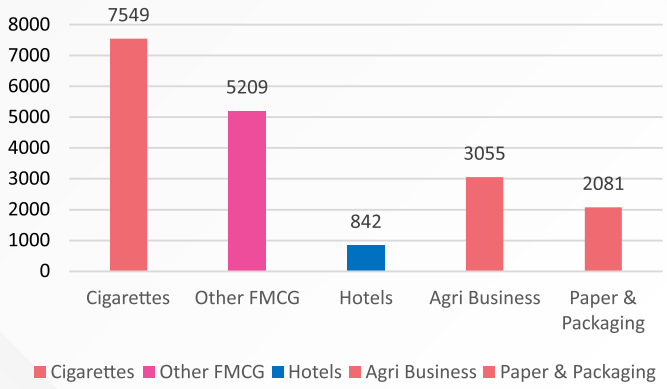
Focus on Climate Smart Agriculture: ITC's emphasis on climate-smart agriculture is evident through its engagement with farmers and the implementation of the Climate Smart Agriculture programme. By promoting resilient agrarian practices, sustainable farming techniques, and digital solutions, ITC aims to enhance food security, improve farmer livelihoods, and mitigate the adverse effects of climate change on agricultural productivity. This strategic focus underscores ITC's commitment to environmental sustainability, social responsibility, and inclusive growth in rural communities.

Commissioning of Nicotine Derivative Facility: The commissioning of the state-of-the-art facility to manufacture and export nicotine and nicotine derivative products represents a strategic investment by ITC to diversify its product portfolio and capture new growth opportunities in global markets. With export shipments expected to commence in Q4 FY24, this facility is poised to contribute to ITC's revenue growth and profitability in the coming quarters. It reflects the company's vision to expand its presence in high-growth sectors and strengthen its competitive position in the global marketplace.

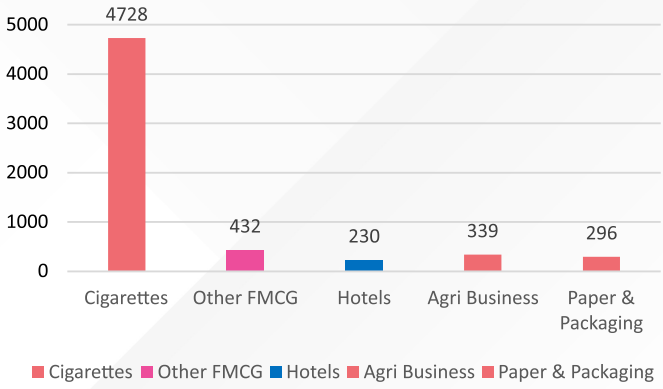
Challenges and Mitigation in Paperboards, Paper & Packaging Segment: The paperboards, paper & packaging segment faces challenges such as low-priced Chinese supplies and a surge in domestic wood costs, which necessitate strategic interventions to maintain competitiveness. In response, ITC is focusing on import pulp substitution, cost management initiatives, and product innovation to mitigate the impact of these challenges and sustain growth in the segment. The company's resilience and adaptability in navigating through market challenges underscore its commitment to delivering long-term value to shareholders and customers in the paper and packaging business.

Story Through Charts

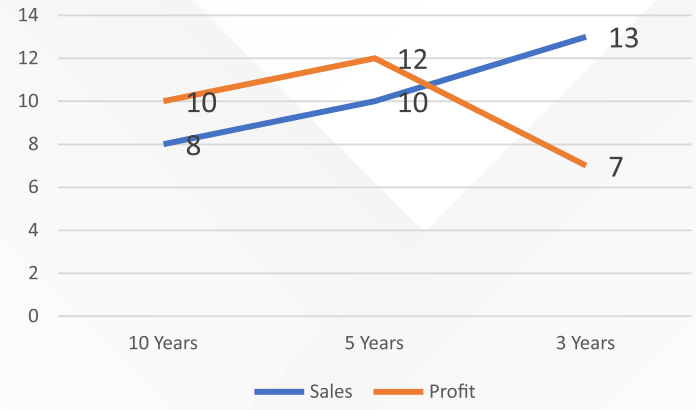
Quarterly Revenue (In Cr)



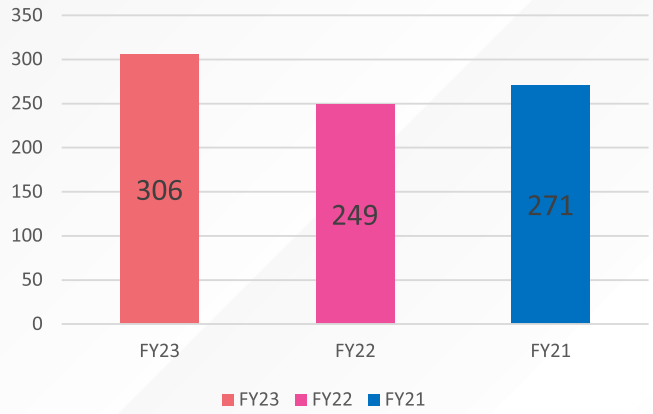
Quarterly EBIT (In Cr)



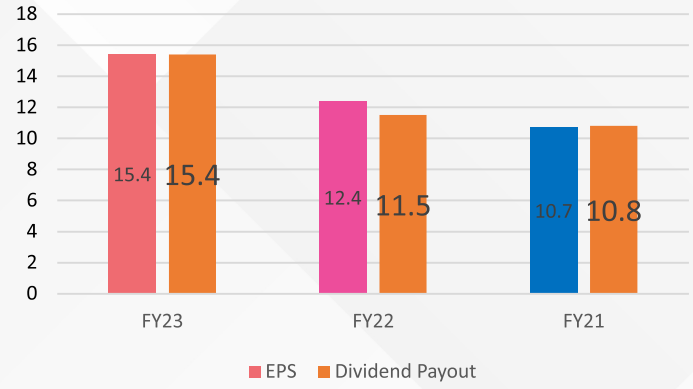
Compounded Growth (In %)



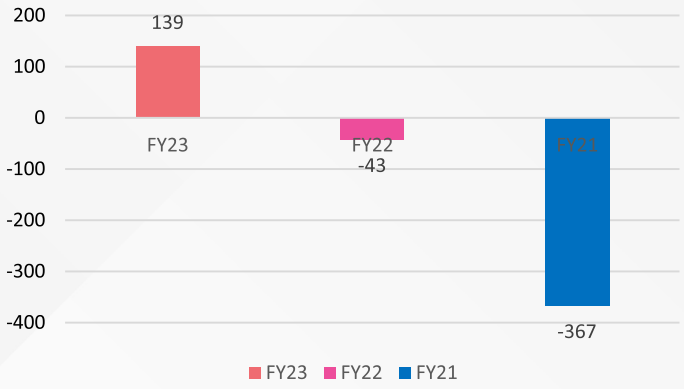
Borrowings (In Cr)



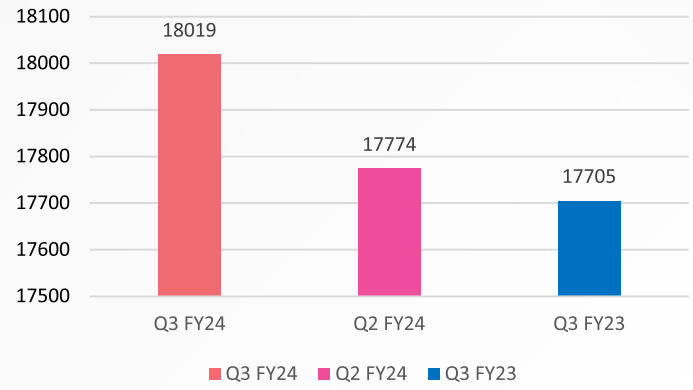
Earnings & Dividend (In Cr)



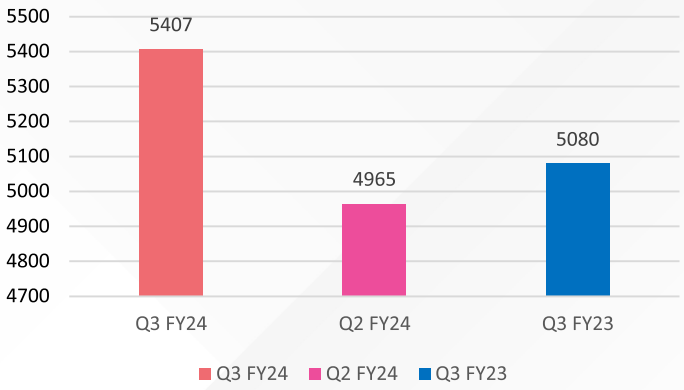
Cash Flows (In Cr)



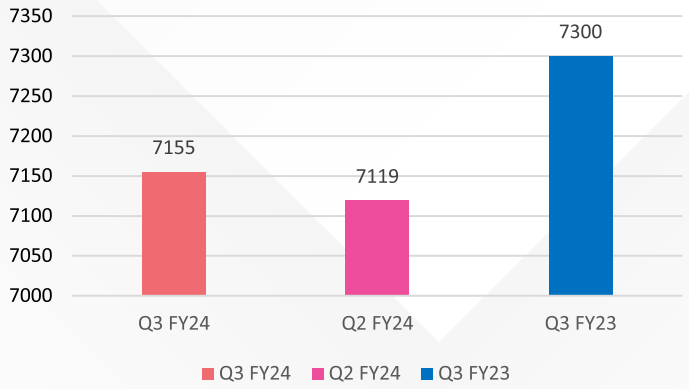
Revenue (In Cr)



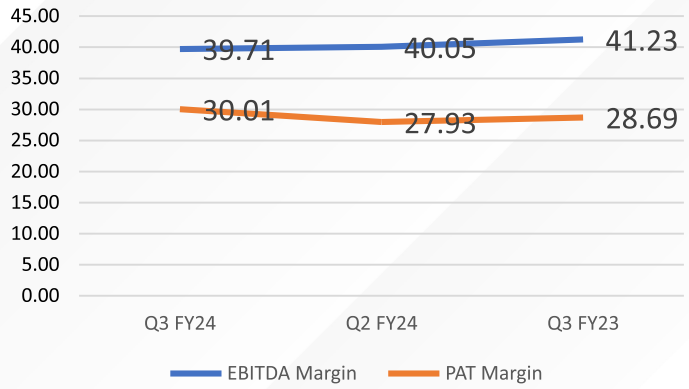
PAT (In Cr)



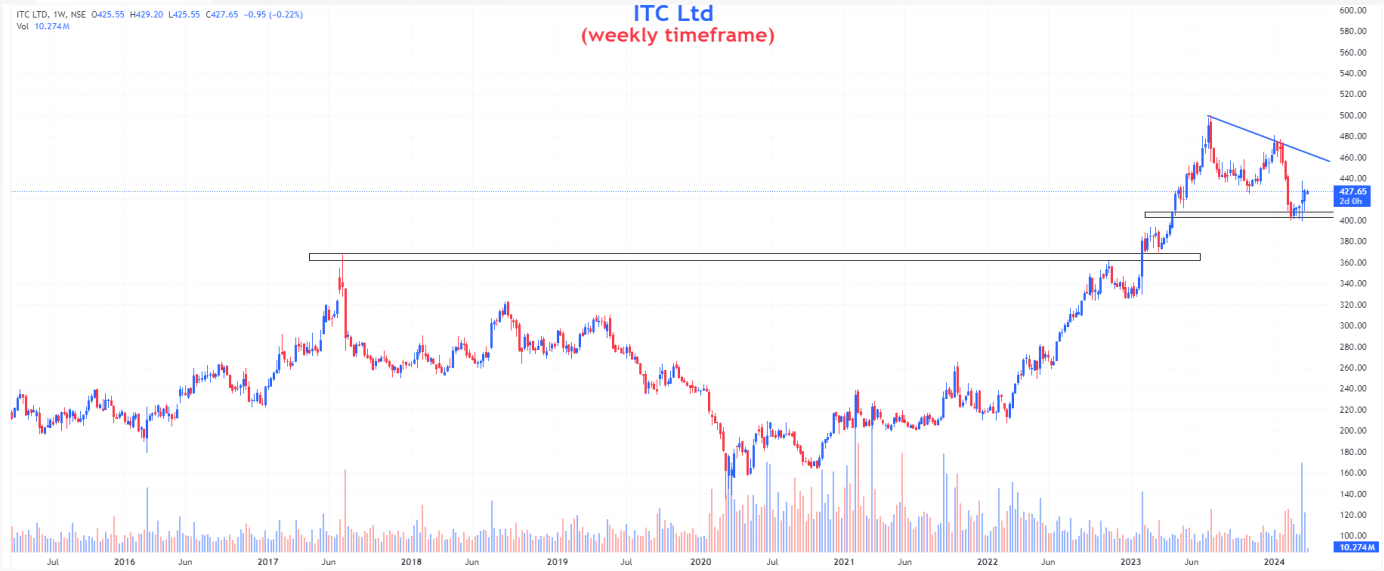
EBITDA (In Cr)



EBITDA & PAT Margin (In %)



Technical Outlook



The chart for ITC Ltd on a weekly timeframe shows a bullish trend with price action creating higher highs and higher lows since mid-2020. Recently, there's been a consolidation pattern forming, indicated by a downward triangle suggesting a temporary pause in the trend. The support level around the 427.65 mark is significant, representing a potential bounce-back point for the price.

The technical analysis for ITC Ltd indicates a steady upward trend as seen in the Simple Moving Averages (SMA) and Exponential Moving Averages (EMA). The SMAs show an increase from 427.9 over 5 days to 444.6 over 200 days, and the EMAs from 426.2 to 428.7, suggesting bullish momentum.

The Relative Strength Index (RSI) points to moderate strength, with a daily RSI of 55.38 indicating potential overbought conditions and a weekly RSI of 45.47 signaling neutrality.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	427.9	426.2
10	422.2	423.2
20	416.8	420.1
50	423.6	424.5
100	438.2	431.7
200	444.6	428.7

Pivot Levels : FIBONACCI		
R1 430.12	Pivot 427.93	S1 424.52
R2 433.53		S2 422.33
R3 435.72		S3 418.92

	Daily	Weekly
Relative Strength Index (RSI)	55.38	45.47

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