

Mixed Q1; cigarette steady show; agri outperforms

About the stock: ITC is diversified consumption play with presence in businesses such as cigarettes, FMCG, Agri and Paperboard, Paper & Packaging (PPP) in India. Its strategy hinges towards utilising funds generated from cash cow cigarette business in improving the growth of FMCG and other businesses. The company demerged and separately listed hotel business, enhancing shareholders value with better growth visibility.

Q1FY26 performance: ITC's net revenues (including other operating income) grew by 20.6% YoY to Rs.19,749.9cr driven by cigarette and agribusiness revenues. Cigarette business volume growth stood at ~6%. Gross margins decreased by 748bps YoY to 49.7% while EBITDA margins decreased by 547bps YoY to 31.7%. The decline in the margins is mainly on account of higher input prices and change in revenue mix. Overall EBITDA grew by 3% YoY to Rs.6,261.3crore and the adjusted PAT grew by 2% YoY to Rs4,912.4 crore.

Investment Rationale:

- Cigarette business volumes grew by ~6%, expect volumes to grow in mid-single digit: ITC's cigarette business net revenues grew by 8% YoY to Rs7,211.0cr in Q1FY26. The cigarette sales volume grew by ~6%, ahead of our expectation 5%. Improved mix led to 1-2% realisation growth. No increase in tax rate on cigarettes and differentiated portfolio aiding ITC to remain competitive against illicit cigarettes and will help maintaining steady volume growth momentum. Moderation in leaf tobacco procurement prices is likely to reduce stress in the coming quarters.
- FMCG business – muted performance; gradual recovery ahead: Non-cigarette FMCG grew by 5.2% YoY to Rs5,777cr (ex-notebook grew by 8.6%) sequentially improved from 3.7% growth in Q4FY25. Staples, Biscuits, Dairy, Premium Personal Wash, Homecare and Agarbattis drive growth. Digital first & Organic portfolio, comprising the Yogabar, Mother Sparsh, Prasuma & Meatigo and 24 Mantra brands, is clocking an annual revenue run-rate (ARR) of Rs1,000cr. Elevated commodity prices led to FMCG business EBITDA margins declining by 190bps yoy to 9.4% (improved by 50bps QoQ). With expected improvement in the consumer demand, we expect FMCG business revenue growth to improve to high single digit to low double digit in H2FY26. Stable commodity prices will help margins to sequentially improve.
- Invest in businesses to improve growth prospects in medium to long run: ITC has maintained its stance to invest Rs 20,000 crore over the next five years to improve growth prospects of each sector. The focus is not expanding the business through organic and inorganic initiatives but also develop strong back-end support by developing diversified and localised manufacturing and supply networks to mitigate the risk of domestic and external challenges. The company has strong cash flows of Rs28,000 cr+ cash and cash equivalent to support its strategic investment plans.

Rating and Target Price

Discounted valuations at 21x its FY27E EPS and thrust on investing in strengthening the businesses makes it a better play amongst large FMCG companies. We recommend Buy with a SOTP price target of Rs525.

Key Financial Summary

Key Financials (₹ crore)	FY23	FY24	FY25	2 year CAGR (FY23-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Revenues	66043.3	65440.8	69323.5	2.5	77843.0	86251.9	11.5
EBIDTA	23945.5	24478.6	24024.8	0.2	27106.3	30565.5	12.8
EBIDTA Margins(%)	36.3	37.4	34.7		34.8	35.4	
Adjusted PAT	18699.7	20429.8	19701.2	2.6	21970.4	24491.9	11.5
EPS (Rs.)	15.1	16.3	15.7		17.6	19.6	
PE (x)	27.8	25.4	26.4		23.6	21.2	
EV to EBITDA (x)	20.9	20.8	20.6		18.2	16.1	
RoE (%)	29.1	29.2	49.4		31.3	32.6	
RoCE (%)	32.6	30.8	31.3		35.7	37.7	



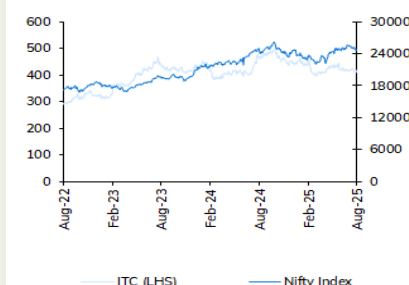
Particulars

Particular	Amount
Market Capitalisation (₹ crore)	521838
Debt (FY25) - ₹ crore	1656
Cash (FY25) - ₹ crore	28320
EV (Rs crore)	495173
52 week H/L (₹)	500 / 381
Equity capital (₹ crore)	1251.4
Face value (₹)	1

Shareholding pattern

Particulars	Sep-24	Dec-24	Mar-25	Jun-25
Promoters	0.0	0.0	0.0	0.0
FII	40.5	40.2	39.9	38.0
DII	44.6	44.9	45.2	46.9
Others	14.9	14.9	14.9	15.1

Price Chart



Key risks

- Sustained inflation in key input prices to put FMCG margin under stress.
- Tax rate hike on cigarettes in the upcoming GST meet.
- Export restrictions on agri commodities will affect Agri business.

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Q1FY26 – Key Performance Highlights

- ITC's net revenues (including other operating income) grew by 20.6% YoY to Rs.19749.9cr driven by 7.6% YoY growth in the cigarette business revenues and 39% YoY growth in the agribusiness revenues.
- Cigarette business volumes grew by 6% YoY in Q1FY26 and revenue grew by 7.6% YoY. Inflation in leaf tobacco impacted PBIT margins by 225bps to 60.4% for the quarter.
- Non-cigarette FMCG business revenues grew by 5.2% YoY (8.6% YoY Ex-notebooks) to Rs.5777cr driven by staples such as Staples, biscuits, dairy and premium personal products. Notebooks continues to operate in deflationary conditions (low priced-paper imports) while unseasonal rains impacted beverages. Led by inflation in key commodities PBIT margins witnessed decline of 180bps to 6.9% in Q1FY26.
- Agri business maintained its strong performance with 39% YoY revenue growth driven by trading opportunities in bulk commodities and strong growth in leaf tobacco exports. PBIT margins declined by 62bps to 4.5%.
- Paperboards, Paper & Packaging Business witnessed single digit growth of 7% YoY in Q1FY26 to Rs.2116cr. Higher wood prices and muted realisations impacted PBIT margins which witnessed 553bps YoY decline to 7.7%.
- Gross margins decreased by 748 bps YoY to 49% (-571bps QoQ) due higher input costs and unfavourable mix as Agri-business contribution increased by ~600bps to total revenues. As a result, EBITDA margins declined by 547 bps YoY to 31.7%.
- Overall EBITDA grew by 3% YoY to Rs.6261.3crore and adjusted PAT stood recorded 2.9% YoY growth to Rs.4912.4 crore.

Q1FY26 – Business highlights

- **FMCG-Others**
FMCG-others reported 5.2% YoY growth in revenues to Rs.5777cr. Ex-notebook the revenues witnessed 8.6% YoY growth as notebook continued to operate in a deflationary environment. Lower priced imports coupled by heightened competition from local players continued to impact notebook business. Unseasonal rains impacted the beverage portfolio while staples, diary, agarbatti and premium personal wash continued to perform driving growth of the portfolio. Digital First and Organic portfolio comprising of newer acquisitions such as Meatigo, Mother Sparsh and 24 Organic mantras are having average revenue rate of Rs.1000cr. New-age channels (q-comm, e-comm and modern trade) witnessed robust growth through better assortments and executions. Impact of elevated raw material prices led to 180bps YoY decline in margins to 6.9% in Q1FY26. However, the same has improved on sequential basis. The Businesses continued to mitigate the impact through focused cost management initiatives, portfolio premiumisation and calibrated pricing actions.
- **FMCG-Cigarettes – steady volume growth**
Cigarette business revenues grew by 7.6% YoY to Rs.8520cr (net revenues grew by 7.7% YoY to Rs.7211cr) driven by ~6% YoY volume growth. Differentiated variants and premium portfolio continued to perform well. Improving mix in the portfolio led to 1-2% improvement in realisations. Consumption of high-cost leaf inventory impacted the margins which witnessed 225bps YoY decline to 60.4% in Q1FY26. Improved portfolio mix helped partially offset the margin pressure on the portfolio. Moderation in Leaf tobacco procurement has been witnessed in current crop cycle indicating lower input cost environment ahead. Volume recovery in the cigarettes has been witnessed also due to stability in taxes and strict enforcement to control illicit trade.

- Agri Business – strong performance**
 Agri-business revenues recorded strong growth with revenues witnessing 39% YoY growth to Rs.9685cr driven by quick execution of trading opportunities in the bulk commodity segment. Leaf tobacco exports posted strong growth driven by robust crop development and superior product quality. Value added products such as Aqua, spices and coffee continued to scale up with 2x growth in the last 4 years. Export of Nicotine and Nicotine derivative products have scaled up during the quarter. Agr-business contribution to revenues witnessed ~600bps YoY improvement. EBIT grew by 22% YoY to Rs.434cr while margins witnessed decline of 62bps YoY to 4.5% in Q1FY26.
- Paperboards, Paper & Packaging**
 The Paperboards, Paper and Packaging business continued to remain under pressure in Q1FY26 due to lower priced imports and elevated domestic wood prices. This led to muted realisations for the segment. Revenues witnessed 7% YoY growth to Rs.2116cr. Enhanced capacity in Décor has led to robust performance in speciality papers while the management continued to lay its focus on structured cost management and portfolio expansion to mitigate challenges. Slight uptick in domestic demand was witnessed in packaging and printing business while sustainable paperboards/packaging solutions has grown 3x in the last 4 years. Business continued to focus on accelerating plantations in core areas and developing new areas. Higher input cost, lower priced imports led to 553bps decline in PBIT margins to 7.7% in Q1FY26 while PBIT declined 38% to Rs.162.6cr. Strategic investments in the value-added paper segments partially offset the margin pressure.
- Food-tech Business**
 The business is part of the ITC Next strategy which leverages the expertise of the company to expand its presence in the online food services segment. Rapid scale-up has been witnessed in this segment with GMV crossing Rs.100cr in FY25. Presently, the business has 60 cloud cities across 5 cities with further scale-up planned ahead.

Revision in earnings estimates

We have broadly maintained our earnings estimates for FY26 and FY27. We expect cigarette sales volume to grow in mid-single digit and non-cigarette FMCG business to witness gradual recovery in the quarters ahead. Correction in the input prices would help EBIDTA margins to gradually improve for key business verticals.

Exhibit 1: Change in head-line estimates

(₹ crore)	FY26E			FY27E		
	Old	New	% Chg	Old	New	% Chg
Net Revenues	76575.8	77843.0	1.7	84879.7	86251.9	1.6
EBIDTA	27178.2	27106.3	-0.3	30567.0	30565.5	0.0
EBIDTA margin (%)	35.5	34.8	(70)bps	36.0	35.4	(60)bps
PAT	21961.2	21970.4	0.0	24451.8	24491.9	0.2
EPS (Rs.)	17.5	17.6	0.3	19.7	19.6	-0.7

Source: Company, ICICI Direct Research

Exhibit 2: Key Operating assumptions

Particulars	FY24	FY25	FY26E	FY27E
Cigarette business net revenues	30596.6	32631.3	35016.6	37639.1
y-o-y%	8.5	6.7	7.3	7.5
Cigarette business volume growth (%)	3.0	4.5	4.7	5.0
Non-cigarette FMCG business	20922.5	21981.6	24179.7	28048.5
y-o-y%	9.6	5.1	10.0	16.0
Agri business	15791.8	19753.8	24692.3	27161.5
y-o-y%	-13.1	25.1	25.0	10.0
PPP business	8344.4	8422.8	9265.1	10376.9
y-o-y%	-8.1	0.9	10.0	12.0

Source: Company, ICICI Direct Research

Exhibit 3: SOTP Valuation

Particulars	PAT	EPS	P/E (x)	Value/share
Cigarette business	18605.9	14.9	25.0	372
FMCG -others	2059.0	1.6	50.0	82
Agri business	1798.7	1.4	14.0	20
PPP Business	1229.5	1.0	12.0	12
ITC Hotels (Demerged entity)				
Current market cap (Rs. Cr)	46686.0			
ITC's post merger holding in the hotel biz	0.4			
Value after adjusting for ITC holding (Rs cr.)	28011.6			
Holding company discount	0.3			
Value after adjusting for holding company discount	21008.7			17
Cash and Investments (Rs cr.)	28320.3			23
Sum of the Parts (SoTP) Valuation				525.5

Source: Company, ICICI Direct Research

Exhibit 4: Q1FY26 Standalone result snapshot

Particulars	Q1FY26	Q1FY25	y-o-y (%)	Q4FY25	q-o-q (%)
Gross revenue	21059.0	17593.0	19.7	18494.1	13.9
Excise duty	1309.1	1219.7	7.3	1245.9	5.1
Net revenue	19749.9	16373.4	20.6	17248.2	14.5
Raw Material Consumed	10072	7125.85	41.4	7812.06	28.9
Employee Expenses	915.47	863.88	6.0	869.43	5.3
Other Expenses	2500.8	2297.1	8.9	2580.3	-3.1
Total expenditure	13488.6	10286.8	31.1	11261.8	19.8
Operating Profit	6261.3	6086.6	2.9	5986.4	4.6
Adjusted PAT	4912.4	4819.5	1.9	4874.7	0.8
Exceptional item	0.0	97.5	-	14686.9	-
Reported PAT	4912.4	4917.0	-0.1	19561.6	-74.9
EPS (Rs.)	3.9	3.9	1.9	3.9	0.8
Margins	Q1FY26	Q1FY25	bps	Q4FY25	bps
GPM (%)	49.0	56.5	-748	54.7	-571
OPM (%)	31.7	37.2	-547	34.7	-300
NPM (%)	24.9	29.4	-456	28.3	-339
Tax rate (%)	24.9	24.9	0	24.0	91

Source: Company, ICICI Direct Research

Exhibit 5: Q1FY26 business-wise revenue performance

Particulars	Q1FY26	Q1FY25	y-o-y (%)	Q4FY25	q-o-q (%)
FMCG - cigarettes	8520.0	7918.1	7.6	8399.6	1.4
FMCG - others	5777.0	5491.0	5.2	5494.6	5.1
Others	68.0	32.9	106.5	52.7	29.0
Agri	9685.0	6973.3	38.9	3649.2	165.4
Paperboard, Paper and Packaging (PPP)	2115.8	1976.7	7.0	2187.6	-3.3
Total	26165.9	22392.0	16.9	19783.7	32.3
Less: Inter segment sales	5254.9	4935.4	6.5	1517.6	246.3
Gross Sales	20911.0	17456.7	19.8	18266.2	14.5

Source: Company, ICICI Direct Research

Exhibit 6: Q1FY26 business-wise PBIT performance

Businesses	PBIT (₹ crore)			Margins (%)		
	Q1FY26	Q1FY25	YoY %	Q1FY26	Q1FY25	Chg in bps
FMCG - cigarettes	5145.3	4959.6	3.7	60.4	62.6	-225
FMCG - others	397.5	475.9	-16.5	6.9	8.7	-179
Others	-6.6	11.6	-156.8	-9.7	35.3	-4496
Agri	433.9	355.8	21.9	4.5	5.1	-62
PPP	162.6	261.3	-37.8	7.7	13.2	-553
Total	6132.7	6064.2	1.1	23.4	27.1	-364

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Net Revenues	65440.8	69323.5	77843.0	86251.9
Growth (%)	-0.9	5.9	12.3	10.8
Raw Material Expenses	26982.1	31735.8	35496.4	38684.0
Gross Profit	38458.7	37587.7	42346.6	47567.9
Gross Profit Margins (%)	58.8	54.2	54.4	55.2
Employee Expenses	3732.2	3416.7	3758.4	4021.5
Other Expenditure	10247.9	10146.1	11481.8	12980.9
Total Operating Expenditure	40962.2	45298.7	50736.6	55686.4
EBITDA	24478.6	24024.8	27106.3	30565.5
Growth (%)	2.2	-1.9	12.8	12.8
Interest	45.8	36.4	42.7	40.0
Depreciation	1647.8	1441.9	1493.0	1687.9
Other Income	3538.3	3454.3	3789.8	3892.5
PBT before Exceptional Items	26323.3	26000.9	29360.4	32730.1
Less: Exceptional Items	-7.6	14921.9	0.0	0.0
PBT after Exceptional Items	26315.8	40922.8	29360.4	32730.1
Total Tax	5893.5	6299.7	7390.0	8238.2
PAT before MI	20422.3	34623.1	21970.4	24491.9
Adjusted PAT	20429.8	19701.2	21970.4	24491.9
Growth (%)	9.3	-3.6	11.5	11.5
EPS (Adjusted)	16.4	27.7	17.6	19.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity Capital	1248.5	1251.4	1251.4	1251.4
Reserve and Surplus	70984.8	66648.7	71099.4	76820.2
Total Shareholders funds	72233.3	67900.1	72350.8	78071.6
Total Debt	2081.2	1655.8	1205.3	1205.3
Deferred Tax Liability	2083.7	2556.4	2633.0	2712.0
Long-Term Provisions	221.5	225.2	236.5	248.3
Source of Funds	76619.6	72337.5	76425.7	82237.3
Gross Block - Fixed Assets	33455.6	27199.2	30767.0	34767.0
Accumulated Depreciation	11067.1	10353.8	11846.8	13534.7
Net Block	22388.6	16845.4	18920.2	21232.2
Capital WIP	1087.0	1067.8	1000.0	1250.0
Right to use assets	721.7	541.9	552.7	563.8
Fixed Assets	24197.3	18455.0	20472.9	23046.0
Goodwill & Other intangible assets	2632.9	2601.2	2679.3	2759.7
Investments	22821.9	10851.2	11000.0	11500.0
Other non-Current Assets				
Inventory	12631.5	15061.0	15995.1	17723.0
Debtors	3311.5	3910.8	4265.4	4726.1
Current Investments	11916.9	25135.9	25635.9	26835.9
Other Current Assets	3597.9	4806.8	5047.1	5299.5
Cash	197.6	222.1	558.6	441.4
Bank balance	6020.1	2962.3	4000.0	4500.0
Total Current Assets	37675.4	52098.9	55502.1	59525.9
Creditors	4489.6	4489.8	5331.7	5907.7
Provisions	68.7	46.5	51.2	56.3
Other Current Liabilities	6149.8	7132.5	7845.7	8630.3
Total Current Liabilities	10708.0	11668.8	13228.6	14594.2
Net Current Assets	26967.4	40430.1	42273.5	44931.6
Application of Funds	76619.6	72337.5	76425.7	82237.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit/(Loss) after taxation	20437.4	19701.2	21970.4	24491.9
Add: Depreciation & Amort.	1647.8	1441.9	1493.0	1687.9
Net Increase in Current Assets	298.3	-4237.7	-1529.1	-2441.0
Net Increase in Current Liabilit	70.9	960.8	1559.8	1365.6
Others	38.2	36.4	42.6	40.0
CF from Operating activities	22492.6	17902.5	23536.8	25144.5
Investments	-4413.9	1809.5	-1686.5	-2200.0
(Purchase)/Sale of Fixed Asset	-2607.4	4332.1	-3588.9	-4341.4
Others	0.0	0.0	0.0	0.0
CF from Investing activities	-7021.2	6141.5	-5275.4	-6541.4
(inc)/Dec in Loan	-126.7	-425.4	-450.5	0.0
Change in equity & reserves	1376.1	-5888.9	0.0	0.0
Dividend paid	-17166.5	-18145.4	-17519.7	-18771.2
Interest paid	-45.8	-36.4	-42.7	-40.0
Other	482.2	476.5	88.0	90.8
CF from Financing activities	-15480.6	-24019.6	-17924.9	-18720.3
Net Cash Flow	-9.2	24.4	336.5	-117.2
Cash and Cash Equivalent	206.9	197.6	222.1	558.6
Cash	197.6	222.1	558.6	441.4
Free Cash Flow	19885.2	22234.5	19947.9	20803.1

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (I)				
Reported EPS	16.4	27.7	17.6	19.6
Cash EPS	17.7	16.9	18.7	20.9
BV per share	57.9	54.3	57.8	62.4
Dividend per share	13.8	14.5	14.0	15.0
Operating Ratios (%)				
Gross Profit Margins	58.8	54.2	54.4	55.2
OPM	37.4	34.7	34.8	35.4
PAT Margins	31.2	28.4	28.2	28.4
Cash Conversion Cycle	63.9	76.2	70.0	70.0
Asset Turnover	0.9	1.0	1.0	1.0
Return Ratios (%)				
RoE	29.2	49.4	31.3	32.6
RoCE	30.8	31.3	35.7	37.7
Valuation Ratios (x)				
P/E	25.4	26.4	23.6	21.2
EV / EBITDA	20.8	20.6	18.2	16.1
EV / Net Sales	7.9	7.5	6.6	6.0
Market Cap / Sales	7.9	7.5	6.7	6.0
Price to Book Value	7.2	7.6	7.2	6.7
Solvency Ratios				
Debt / EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	4.5	4.2	4.1
Inventory days	70.5	79.3	75.0	75.0
Debtor days	18.5	20.6	20.0	20.0
Creditor days	25.0	23.6	25.0	25.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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