ITC Limited

Kantilal Chhaganlal
Since 1954

ITC Ltd

TP: 390 | Upside: 19% | BUY

FMCG

23rd Feb, 2026

Market Cap - ₹ 4,08,328 Cr.	Current Price - ₹ 326	High / Low - ₹ 444 / 302	Dividend Yield - 0.61 %
EPS - ₹ 28.0	Promoter holding – 0.00 %	ROE - 27.3 %	ROCE - 36.8 %

Key Sensitivities & External Factors

➢ Cigarette Taxation & Excise Duty Shocks

- A significant hike in excise duties on cigarettes has been implemented by the Indian government from Feb 1 2026, adding a sharp levy on top of the 40% GST. This has shaken investor confidence because ITC's cigarette business historically contributes 40%+ of total revenue and most of the profit.
- This led to massive share volatility, downgrades from major brokerages, and sharp cuts to price targets. Analysts expect volume erosion, margin pressure, and lower earnings growth ahead.
- The company is passing on much of the tax increase via price hikes (estimated up to 30-40% in some segments), which may cushion volumes but will likely squeeze margins.

➢ Diversification Beyond Tobacco

- ITC's FMCG businesses (foods, personal care, wellness) and paper/packaging segments are increasingly highlighted as long-term growth drivers to offset tobacco reliance. Recent launches and portfolio expansion support this shift.
- Institutional voices suggest that while tobacco drags short-term earnings, FMCG and other consumer segments could underpin recovery and re-rating if they deliver sustained profit growth.

➢ Other Related Developments

- Fund Flows: Some mutual funds have exited ITC positions in January – a sign of re-allocation amid tax shock and macro shifts.
- Dividend News: The company declared a ₹6.50 dividend in the last quarter — often factored into valuation decisions (dividend yield appeal).

Kantilal Chhaganlal Securities Pvt Ltd
SEBI Reg. Nos.: INZ000216538(Stock Broker), INH00001428(Research Analyst)
601 Inizio Business Centre, Cardinal Gracious Road Opposite Proctor and Gamble, Chakala, Andheri West, Mumbai
research@kcsecurities.com 02267236000 www.kcsecurities.com

Industry Overview

➢ Global Tobacco Industry

Market Position & Size

- The global tobacco market including smoking, chewing and snuff products continues to be a large but slowly growing industry. Despite health pressures and regulation, total market size is projected to grow modestly from 2025 onwards.
- Long-term forecasts (to 2030+) show slow CAGR (2%) with some regional variation in consumption trends.

Key Global Trends

- Stringent regulation and public health policies (tax hikes, advertising bans, packaging restrictions) remain a primary constraint globally.
- Shift toward alternatives (vapes, heated tobacco, nicotine pouches) is gaining traction, notably in developed markets.
- Illicit trade and smuggling continue to pressure legal volumes in some countries.
- Emerging markets still sustain demand growth, though government policies are tightening in many regions.

Industry Outlook

Legal cigarette volumes are broadly flat to declining in developed countries, while demand persists in parts of Asia, Africa and the Middle East.Investors watch regulatory and taxation trends closely, as these directly impact profitability for tobacco companies worldwide.

➢ India Tobacco Industry

Regulatory & Tax Environment

- India’s government has sharply increased excise duties and GST on tobacco products (effective Feb 1 2026), which has already rattled the tobacco sector and erased value in tobacco stocks.
- Sin-goods tax policies make cigarettes more expensive, which could dampen volumes but also provide pricing leverage for legal players against illicit trade.

Farmers & Leaf Supply

- Tobacco farmers in regions such as Karnataka are facing declining leaf prices and weaker demand, partly due to tax-induced volume pressure.Auction markets and crop decisions by the Tobacco Board reflect weaker domestic and export demand cues.

Market Structure

- India is one of the largest cigarette markets globally, with a mix of local and multinational brands.
- Smoking prevalence remains significant, but long-term consumption trends depend heavily on tax policy and enforcement including crackdowns on illicit products.
- Legal cigarette demand tends to be price inelastic, giving dominant brands pricing power, but tax hikes still impact affordability and volume growth.

➢ Domestic FMCG Industry

Growth & Volume Trends

- India's FMCG industry is forecast to deliver high single-digit volume growth in 2026, supported by improving consumer demand and easing inflationary pressures.
- Urban FMCG sales growth in 2025 outpaced rural, but overall expansion slowed, indicating shifts in consumption patterns that companies must navigate.

Strategic Shifts

- FMCG companies are increasingly focusing on volume-led growth rather than price hikes a linked outcome of normalizing prices and better demand conditions.
- Categories such as staples, personal care, agarbattis, and dairy & packaged foods have remained resilient, offering growth opportunities.

Implications for ITC

- ITC's non-tobacco FMCG businesses (foods, personal care, wellness, staples) benefit from broad industry momentum.
- Continued consumer demand and margin improvement prospects support long-term growth beyond tobacco an important diversification trend given tax headwinds in cigarettes.

FMCG Growth Tailwinds

- India's FMCG sector poised for improving demand and margin recovery, offering a growth engine for ITC's diversified business segments.
- Volume-led growth and increasing rural/urban consumption trends support broader sector resilience.

Business Overview

ITC Limited, headquartered in Kolkata, is one of India's most diversified conglomerates with a presence across six major business segments: tobacco products, FMCG, agribusiness, paperboards, paper and packaging, hotels, and information technology. While the company generates a plurality of its revenue from its high-margin tobacco business, it has strategically leveraged these earnings to expand its footprint in non-tobacco FMCG products, including staples, snacks, personal care, and lifestyle brands. Through its agribusiness and paper & packaging operations, ITC maintains integrated value chains that support both domestic and international markets, while ITC Hotels and ITC Infotech further diversify its portfolio. With strong brands like Aashirvaad, Sunfeast, Bingo!, Fiama, Vivel, Classmate, and its luxury hotel chain, ITC has become the second-largest FMCG company in India by market capitalization and the third-largest tobacco company in the world, exemplifying a conglomerate model that balances profitability, diversification, and strategic growth.

Business Segments & Revenue Streams

ITC's business is structured into several key segments, each contributing to the company's overall revenue and profit in different proportions.

1. FMCG (Fast-Moving Consumer Goods)

This is one of ITC's fastest-growing businesses and includes two major parts:

➢ Tobacco & Cigarettes

- Historically the company's largest revenue and profit contributor.
- ITC commands a significant share of India's organised cigarette market with brands like Gold Flake, Classic, Wills Navy Cut and Insignia.
- This segment generates high margins and is critical to ITC's profitability (substantial share of total profits).

➢ FMCG Others

ITC has rapidly expanded into non-tobacco FMCG, which now includes:

- Foods & staples – Aashirvaad (atta, spices, flour etc.)
- Biscuits & snacks – Sunfeast, Bingo!
- Instant noodles – Yippee!
- Health drinks – B Natural
- Personal care & hygiene – Fiama, Vivel, Savlon
- Stationery – Classmate, Paperkraft
- Lifestyle & apparel – Wills Lifestyle, John Players (varying focus)

This diversified portfolio targets broad consumer segments and contributes increasingly to revenue.

2. Agribusiness

- ITC sources and trades agricultural commodities, such as grains, pulses, spices, oilseeds, coffee etc.
- It operates one of India's largest integrated agri value chains, with extensive rural linkages and export operations to many countries.
- Revenue comes from both commodity trading and value-added products.

3. Paperboards, Paper & Packaging

- ITC is a leader in paperboards and specialty papers for packaging and industrial use, offering solutions for FMCG, e-commerce, pharma and consumer industries.
- This segment benefits from both domestic demand and exports..

4. Hotels & Hospitality

- Under the ITC Hotels brand, the company operates luxury and premium hotels focused on "Responsible Luxury" and sustainability.
- Revenue derives from room bookings, food & beverage services, events and allied services.
- (Note: As of 2025, ITC demerged its hotel business into a separate listed entity.)

5. Information Technology (ITC Infotech)

- ITC Infotech is a global IT services provider, offering digital and technology solutions across industries.
- Revenue is generated via software services, consulting, digital transformation projects and managed services for enterprise clients.

Business Model

ITC's corporate strategy is centred on diversification and synergy — building stable, long-term revenue streams across unrelated industries to spread risk and capitalise on growth opportunities. Key characteristics include:

❖ **Conglomerate Model**
- Multi-segment presence reduces dependency on a single business line.
- Legacy cash-cow (tobacco) funds growth-oriented segments (FMCG, Agri, IT).

❖ **Brand Portfolio & Market Penetration**
- Strong brand equity in both traditional (tobacco) and modern consumer categories.
- Deep distribution network across urban and rural India enhances market reach.

❖ **Value Chain Integration**
- Vertically integrated agribusiness supports raw material sourcing for multiple segments (e.g., food products).Cross-business synergies enhance supply efficiency and cost management.

❖ Sustainability & Innovation Focus
- Emphasis on sustainability programs (e.g., e-Choupal rural network, green buildings).
- Continuous innovation drives product and category expansion.

Revenue & Profit Dynamics

- Cigarettes remain a major revenue and profit driver, often contributing the largest share of earnings.
- Non-tobacco FMCG, paperboards, agri and IT segments contribute growing revenues, though with different profitability profiles.
- Diversification reduces risk and supports long-term growth.

Peer Comparison

S. No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	Hind. Unilever	2345.20	50.45	551026.08	1.85	6603.00	9.62	16441.0	5.69	27.85
2.	ITC	324.85	19.71	407012.01	4.39	5018.45	9.62	20047.3	6.69	36.79
3.	Hindustan Foods	488.10	42.74	5831.89	0.00	36.12	35.19	998.24	13.47	14.34
4.	Godavari Bioref.	283.00	26.85	1448.29	0.00	8.25	126.91	459.85	2.81	5.79
5.	Davangere Sugar	4.18	70.40	597.74	0.00	2.62	-61.30	82.69	13.00	6.70

Company Financials

Financials & Valuations (INR b)

Y/E March	2026E	2027E	2028E
Sales	819.9	870.9	929.8
Sales Gr. (%)	6.8	6.2	6.8
EBITDA	271.7	270.6	291.7
EBITDA Mrg. %	33.1	31.1	31.4
Adj. PAT	207.8	207.0	222.8
Adj. EPS (INR)	16.6	16.5	17.8
EPS Gr. (%)	3.8	-0.4	7.6
BV/Sh.(INR)	57.6	58.7	61.1
Ratios			
RoE (%)	29.2	28.4	29.7
RoCE (%)	28.7	28.0	29.3
Payout (%)	90.0	90.0	90.0
Valuations			
P/E (x)	19.2	19.3	17.9
P/BV (x)	5.5	5.4	5.2
EV/EBITDA (x)	17.7	17.7	16.3
Div. Yield (%)	4.7	4.7	5.0

Segmental information

Segmental Information	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26
Net sales (INR b)							
Cigarettes	88.4	88.8	89.4	92.3	95.5	94.1	96.8
FMCG - Others	55.0	55.9	54.3	55.0	58.0	60.6	61.1
Agri business	70.0	58.5	36.3	36.9	97.2	40.4	38.6
Paper and packaging	19.8	21.1	21.4	21.9	21.2	22.2	22.0
Sales growth (YoY)							
Cigarettes	5.8	6.6	7.8	6.2	8.0	6.0	8.2
FMCG - Others	6.3	5.3	4.0	3.7	5.5	8.5	12.6
Agri business	22.2	46.6	10.8	17.8	39.0	(30.9)	6.4
Paper and packaging	(6.8)	2.1	3.1	5.6	7.1	5.0	2.7
Volume growth (YoY)							
Cigarettes	3.0	3.5	6.0	5.0	6.0	6.0	6.5
EBIT (INR b)							
Cigarettes	52.6	52.4	51.9	54.0	55.0	54.6	54.9
FMCG - Others	4.8	4.4	3.2	3.5	4.0	4.4	4.5
Agri business	3.4	4.5	5.0	2.5	4.3	4.5	5.0
Paper and packaging	2.6	2.3	2.0	1.9	1.5	1.8	1.9
EBIT growth (YoY)							
Cigarettes	6.3	4.8	4.5	4.8	4.6	4.2	5.7
FMCG - Others	10.4	0.4	(26.1)	(27.9)	(16.7)	(1.2)	39.8
Agri business	(2.2)	24.5	30.3	35.5	26.1	1.5	(0.1)
Paper and packaging	(45.6)	(25.4)	(33.2)	(33.0)	(40.9)	(22.8)	(4.2)
EBIT margin (%)							
Cigarettes	59.4	59.0	58.0	58.5	57.6	58.0	56.7
FMCG - Others	8.7	8.0	5.9	6.3	6.9	7.2	7.3
Agri business	4.9	7.6	13.7	6.8	4.5	11.2	12.8
Paper and packaging	13.0	11.1	9.2	8.9	7.2	8.2	8.6
EBIT margin change (%)							
Cigarettes	0.3	(1.0)	(1.8)	(0.8)	(1.9)	(1.0)	(1.4)
FMCG - Others	0.3	(0.4)	(2.4)	(2.7)	(1.8)	(0.7)	1.4
Agri business	(1.2)	(1.4)	2.1	0.9	(0.5)	3.6	(0.8)
Paper and packaging	(9.3)	(4.1)	(5.0)	(5.1)	(5.8)	(2.9)	(0.6)

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Consol. Quarterly Performance (Reported) (INR b)

Y/E March	FY25				FY26				FY25	FY26E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q*	2Q*	3Q	4QE			3QE*	
Est. cigarette vol. gr. (%)	3.0	3.5	6.0	5.0	6.0	6.0	6.5	-7.0	4.4	2.9	6.0	
Net Sales	184.6	207.4	187.9	187.7	214.9	195.0	200.5	209.4	767.5	819.9	207.1	-3.2%
YoY change (%)	7.5	16.7	4.3	4.7	16.5	-6.0	6.7	11.6	8.3	6.8	10.2	
Gross Profit	111.7	115.9	108.3	110.3	112.6	113.6	116.3	119.9	446.2	462.4	119.1	
Margin (%)	60.5	55.9	57.6	58.8	52.4	58.3	58.0	57.2	58.1	56.4	57.5	
EBITDA	67.5	67.6	63.6	65.2	68.2	66.9	68.8	68.0	263.9	271.7	67.8	1.5%
Growth (%)	1.2	4.8	-2.2	-1.6	1.0	-1.0	8.2	4.3	0.5	2.9	6.5	
Margins (%)	36.6	32.6	33.9	34.7	31.7	34.3	34.3	32.5	34.4	33.1	32.7	
Depreciation	5.0	5.2	4.2	4.1	4.2	4.3	4.3	4.8	18.5	17.7	4.5	
Interest	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.0	0.5	0.5	0.2	
Other Income	6.9	6.2	6.0	6.4	6.8	5.8	5.7	8.8	25.5	27.3	6.9	
PBT	69.3	68.4	65.3	67.4	70.6	68.2	70.1	72.1	270.4	280.7	69.9	0.2%
Tax	17.6	17.9	17.3	16.8	17.8	17.9	17.4	17.5	69.6	70.7	17.6	
Rate (%)	25.4	26.2	26.4	24.9	25.3	26.3	24.8	24.3	25.7	25.2	25.2	
Adj PAT	50.9	49.9	46.8	50.7	52.4	50.6	51.9	52.4	198.4	207.8	51.7	0.4%
YoY change (%)	-0.2	2.0	-12.4	-0.9	3.0	1.3	11.1	3.2	-3.1	4.7	9.4	
Reported PAT	50.9	49.9	45.3	50.7	52.4	51.3	49.3	52.4	197.9	207.8	51.7	-4.7%

Balance Sheet (INR b)

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Share Capital	12.3	12.3	12.3	12.4	12.5	12.5	12.5	12.5	12.5
Reserves	640.4	585.6	602.4	679.1	732.6	687.8	709.5	723.2	753.5
Net Worth	652.7	597.9	614.8	691.6	745.1	700.3	722.1	735.8	766.0
Loans	0.1	0.1	0.1	0.4	0.1	0.9	1.0	1.1	1.2
Deferred Liability	15.7	16.8	16.1	15.8	20.7	20.7	20.7	20.7	20.7
Capital Employed	668.5	614.8	630.9	707.7	765.9	721.9	743.8	757.6	787.9
Gross Block	364.2	396.5	423.4	457.6	476.6	436.3	463.8	494.7	525.6
Less: Accum. Depn.	147.0	163.5	180.8	198.9	217.1	216.7	234.4	253.4	273.6
Net Fixed Assets	217.2	233.1	242.6	258.7	278.3	219.6	229.4	241.3	252.1
Capital WIP	32.5	40.0	32.0	29.8	28.5	10.9	8.7	7.0	5.6
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments	286.6	248.7	248.4	294.2	311.1	347.2	362.2	377.2	392.2
Current	179.5	148.5	122.6	172.3	129.4	162.9	177.9	192.9	207.9
Non-current	107.2	100.2	125.8	121.8	181.7	184.3	184.3	184.3	184.3
Curr. Assets, L&A	236.8	210.2	239.2	275.6	299.6	298.1	312.1	317.6	342.6
Inventory	89.7	104.0	108.6	117.7	141.5	156.4	154.4	162.4	170.3
Account Receivables	25.6	25.0	24.6	29.6	40.3	47.2	47.6	49.6	53.0
Cash and Bank Balance	72.8	41.0	36.8	48.8	72.2	40.1	48.6	40.9	51.4
Others	48.7	40.2	69.2	79.5	45.6	54.4	61.6	64.7	67.9
Curr. Liab. and Prov.	100.8	113.8	127.6	146.8	147.8	150.2	161.4	174.3	188.6
Account Payables	36.3	43.2	44.2	46.6	48.0	48.1	52.1	55.3	59.0
Other Liabilities	59.9	65.3	75.7	98.6	98.2	100.8	107.8	117.2	127.5
Net Current Assets	136.0	96.4	111.6	128.8	151.8	147.9	150.7	143.3	154.0
Application of Funds	672.3	618.2	634.6	711.5	769.7	725.6	751.0	768.8	803.8

KantilalChhaganlal SecuritiesPvt Ltd
SEBI Reg. Nos.: INZ000216538(Stock Broker), INH00001428(Research Analyst)
601 Inizio Business Centre, Cardinal Gracious Road Opposite Proctor and Gamble, Chakala, Andheri West, Mumbai
research@kcsecurities.com 02267236000 www.kcsecurities.com

Financial Interpretation

- **Steady Revenue Growth:** Sales expected to grow from ₹767bn (FY25) to ₹820bn (FY26E), with gradual improvement ahead.
- **Stable Profitability**: EBITDA margins strong at 33–34%; RoCE healthy at ~28–29%.
- **Volume Momentum**: Cigarette volumes growing 6–6.5%, supporting core earnings.
- Balance Sheet Strength: Strong net worth, low leverage, solid cash generation.
- Attractive Returns: Dividend yield ~5%; valuation moderating (P/B ~5x).

Overall: A stable, cash-generating business with strong margins and steady growth, offering defensive comfort.

Key Strengths

Strong Brand Portfolio

ITC has a diversified set of well-recognized brands across categories such as tobacco (Gold Flake, Classic), FMCG (Aashirvaad, Sunfeast, Bingo!, Fiama, Vivel, Classmate), and hospitality (ITC Hotels), which gives it significant brand equity and consumer trust.

Market Leadership

- Tobacco: ITC is a dominant player in India's organized cigarette market.
- FMCG: It ranks as the second-largest FMCG company in India by market capitalization.

Diversified Business Model

Revenue comes from multiple sectors: tobacco, FMCG, agribusiness, paper & packaging, IT services, and hotels. This diversification reduces dependency on any single segment and stabilizes overall earnings.

Strong Distribution & Supply Chain

ITC has one of the largest and most efficient distribution networks in India, reaching urban and rural markets alike. Its agribusiness operations (e-Choupal network) strengthen rural sourcing and supply chain integration.

Financial Strength & High Profitability

The tobacco business generates high margins, providing ITC with strong cash flow to invest in growth-oriented segments like non-tobacco FMCG, paper, and IT.

Innovation & Product Diversification

Continuous product innovation in FMCG, stationery, and packaged foods helps ITC adapt to changing consumer preferences and enter new markets.

Sustainability & ESG Initiatives

ITC emphasizes environmental sustainability (e.g., green buildings, renewable energy), rural development, and social responsibility programs, enhancing its corporate reputation and long-term growth prospects.

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Key Risks

Regulatory & Policy Risk

- ITC's largest profit driver the cigarette business is heavily regulated with high taxes, packaging rules, advertising bans, and possible future restrictions on tobacco products. This can squeeze volumes and margins.
- A new excise duty hike on cigarettes in India recently caused a sharp fall in tobacco stocks, including ITC's, pointing to the sensitivity of its core segment to government policy.

Dependence on Tobacco Segment

- Despite diversification, a large portion of revenue and profits still come from cigarettes. This over-reliance makes overall performance vulnerable to anti-tobacco campaigns, public health advocacy, and declining use.

Intensifying Competition

- In FMCG and consumer products (foods, personal care, staples), ITC faces stiff competition from global majors like Hindustan Unilever, Nestlé, Dabur, Britannia and agile D2C brands which can squeeze market share and growth.

Commodity & Input Cost Volatility

- Fluctuations in prices of key inputs (palm oil, wheat, paper pulp, edible oils, packaging materials) can compress margins. Global supply chain shocks or inflationary pressure make cost management harder.

Capital & Operational Risks in Diversified Segments

- Segments like hotels and hospitality are capital-intensive with cyclical demand, making them sensitive to economic downturns and seasonal fluctuations.
- Managing a diverse portfolio effectively across FMCG, agri-business, paperboards, hotels and digital initiatives requires resource focus and execution capability missteps can dilute performance.

Supply Chain & External Disruptions

- Environmental events (droughts, floods), geopolitical instability or pandemic-like shocks can disrupt supply chains, especially in agribusiness and raw material sourcing.

Shifts in Consumer Preferences

- Growing demand for healthier, natural, eco-friendly products risks reducing demand for traditional offerings, especially tobacco and some food categories if ITC fails to innovate fast enough.

Limited Global Footprint

- Most of ITC's revenue comes from India; limited international exposure means it's more exposed to local economic, regulatory or market cycles compared with more globally diversified peers.

Valuation and Outlook

- ITC Limited is positioned for steady earnings growth, supported by resilient cigarette volumes (6%+ growth), stable EBITDA margins (33–34%), and strong cash generation. Revenue is expected to grow steadily through FY28E, with RoCE sustaining at healthy 28–29%, reflecting efficient capital allocation and strong operating strength. While valuations remain relatively elevated at ~5x P/B with moderate EPS growth, the 5% dividend yield and consistent free cash flow provide downside support.

- The company's fundamentals remain robust, backed by a strong balance sheet, low leverage, and diversified presence across FMCG, agri, and paperboards. Key risks include regulatory/tax changes in cigarettes, input cost volatility, and margin pressure in non-cigarette FMCG segments.

- We maintain a **Buy** stance, supported by stable core profitability, attractive dividend yield, and steady long-term earnings visibility, making it suitable for defensive, income-focused portfolios.

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601 Inizio Business Centre, Cardinal Gracious Road Opposite Proctor and Gamble, Chakala, Andheri West, Mumbai
research@kcsecurities.com 02267236000 www.kcsecurities.com