

GST levy on MRP would enhance competitive position

Consumer Goods ▶ Company Update ▶ September 03, 2025

CMP (Rs): 412 | TP (Rs): 475

As the GST Council is meeting to rationalize GST rates across consumption categories, we expect the government to look into cigarette taxation. We believe the government may take a call to replace cigarette compensation cess. Steady taxation in the last few years helped arrest growth in illegal volumes, with accelerated growth in legal volumes being a positive for the government. We see steady taxation as the base case scenario, where the government may hike the basic GST rate to 40% (from 28%) on value addition or MRP and shift the balance incidence to NCCD. In our view, if the imposition is on MRP, ITC's competitive position would enhance. We retain ADD on the stock with our Jun-26E TP of Rs475. We see decent stock price returns as the overhangs subside.

Easing in overhangs to aid ITC stock

ITC has corrected ~16% in the last one year. The correction can be attributed to: a) Concerns about an increase in cigarette taxation. b) Competitive pressure from Godfrey Phillips (GPI), which has gained ~300bps of market share from ITC. c) Inflation in prices of tobacco leaf impacting EBIT margin. d) Inflationary pressures and demand slowdown in the FMCG business. e) Steady dumping by China (via Indonesia) hurting the paper business, and f) Stake sale by BAT (a major shareholder). The first 5 overhangs would subside by H2FY26E, although another round of stake sale by BAT is expected. Tax changes for cigarettes are likely to be neutral in GST 2.0 regime.

Demand outlook positive for cigarettes on steady taxation

After the pandemic, cigarette smoking among youth and women increased, reflected by the industry's robust volume (legal) growth. Stable taxation is fostering a shift from illegal to legal volumes in the industry. Growth has been particularly strong in North and West India, with GPI capturing share; ITC also saw accelerated growth in these markets. Despite a broad pan-India footprint slowing relative growth, ITC is advancing with targeted brands and trade actions, reducing the risk of further market-share loss. The possibility of tax incidence on MRP (from value add) will create a setting where smaller peers have higher burdens. Margins are poised to recover as low-cost inventory is consumed, supporting expectations of low double-digit EBIT growth in cigarettes ahead.

Non-cigarette businesses to see recovery

Non-cigarette segments have faced pressure due to macro headwinds, although easing in inflation, the government's relaxed export policies, and anti-dumping measures for paper are setting the stage for recovery. The paper segment, which saw margin erosion from raw material price inflation and China's dumping, is likely to benefit from minimum import prices (effected) and anti-dumping duty (expected), aiding realization. Also, the margin outlook for the paper business would improve, with expected easing in raw material cost. Earnings growth in these segments would return to double digits (refer to our detailed note: [Headwinds in the base; outlook to gradually improve](#)).

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	15.3

Stock Data	ITC IN
52-week High (Rs)	500
52-week Low (Rs)	390
Shares outstanding (mn)	12,525.4
Market-cap (Rs bn)	5,157
Market-cap (USD mn)	58,559
Net-debt, FY26E (Rs mn)	(357,558.7)
ADTV-3M (mn shares)	18
ADTV-3M (Rs mn)	5,361.8
ADTV-3M (USD mn)	60.9
Free float (%)	100.0
Nifty-50	24,715.1
INR/USD	88.1

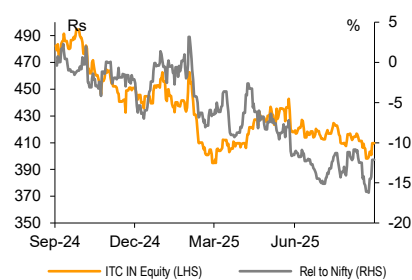
Shareholding, Jun-25

Promoters (%)	0.0
FPIs/MFs (%)	38.0/46.9

Price Performance

(%)	1M	3M	12M
Absolute	(1.1)	(1.2)	(14.6)
Rel. to Nifty	(1.7)	(1.9)	(12.6)

1-Year share price trend (Rs)



ITC: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	654,251	693,223	781,478	893,571	1,003,002
EBITDA	244,629	240,236	265,823	313,548	349,480
Adj. PAT	199,453	195,627	213,643	243,542	270,174
Adj. EPS (Rs)	16.0	15.6	17.0	19.3	21.3
EBITDA margin (%)	37.4	34.7	34.0	35.1	34.8
EBITDA growth (%)	2.2	(1.8)	10.7	18.0	11.5
Adj. EPS growth (%)	6.4	(2.1)	8.6	13.4	10.4
RoE (%)	28.5	27.9	30.7	32.9	33.7
RoIC (%)	55.4	55.1	58.8	63.0	65.5
P/E (x)	25.8	14.6	24.2	21.4	19.4
EV/EBITDA (x)	19.7	20.0	18.1	15.4	13.8
P/B (x)	7.1	7.6	7.3	6.8	6.3
FCFF yield (%)	2.8	4.3	2.9	4.1	4.4

Source: Company, Emkay Research

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Cigarette taxation changes likely in GST meet

Cigarette duty is a structural combination of variable payout and fixed charges per stick. Like all sin goods, cigarettes are taxed at 28% base GST, with fixed and variable cess across the length of the sticks. Currently, the imposition is up to distributor level under GST. There is central duty imposition in the form of Basic Excise and NCCD (incidence is on production).

Exhibit 1: Current taxation on cigarettes

Taxation	KSFT	LSFT	RSFT	DSFT
Fixed duty incidence				
Basic Excise Duty (Rs/1,000 sticks)	5	5	5	5
NCCD (Rs/1,000 sticks)	850	630	510	510
GST fixed slab (Rs/1,000 sticks)	4,170	3,668	2,747	2,076
Variable duty incidence				
GST rate	28%	28%	28%	28%
Imposition	On value add			
GST cess	36%	5%	5%	5%
Imposition	On value add			

Source: GOI, Emkay Research

Two likely tax-neutral scenarios

Under GST, compensation cess is likely to end by Mar-26. We see a gradual shift in incidence to other tax heads, as GST cess ends. We see a scenario where the government would increase GST to 40% (from 28%) and the balance amount of GST incidence would shift to NCCD. In the table below, we have highlighted possible NCCD increases, which would keep the tax incidence neutral.

Exhibit 2: Expected taxation for cigarettes – Scenario 1 (GST rate shift to 40%, with levy on value addition and increase in NCCD)

Taxation	KSFT	LSFT	RSFT	DSFT
Fixed duty incidence				
Basic Excise Duty (Rs/1,000 sticks)	5	5	5	5
NCCD (Rs/1,000 sticks)	5,007	2,978	2,234	1,832
GST fixed slab (Rs/1,000 sticks)				
Variable duty incidence				
GST rate	40%	40%	40%	40%
Imposition	On value add			
GST cess				
Imposition				

Source: Emkay Research

Per media reports, there is a possibility of GST rate being levied on MRP; in such a case, retailers would also come in the tax net. Also, this will lead to increase in tax incidence, given a shift from value addition-based taxation to final MRP-based taxation.

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Exhibit 3: Expected taxation for cigarettes – Scenario 2 (GST levy shifts to 40% on MRP and increase in NCCD)

Taxation	KSFT	LSFT	RSFT	DSFT
Fixed duty incidence				
Basic Excise Duty (Rs/1,000 sticks)	5	5	5	5
NCCD (Rs/1,000 sticks)	2,625	1,295	830	845
Variable duty incidence				
GST rate	40%	40%	40%	40%
Imposition	On MRP			

Source: Emkay Research

Exhibit 4: Assessing taxation for RSFT segment under different scenarios (Keeping MRP at Rs10/stick)

	Current GST incidence on value addition (up to distributor)	Current tax with shift in incidence to retail	Proposed tax of 40% GST (at retail) + NCCD changes	Proposed tax of 40% GST (on MRP) + NCCD changes
Tax payout (Rs/stick)	Based on Exhibit 1	Based on Exhibit 1	Based on Exhibit 2	Based on Exhibit 3
GST	1.34	1.53	2.86	4.00
GST Cess	2.99	3.02	0.00	0.00
Basic Excise	0.01	0.01	0.01	0.01
NCCD	0.51	0.51	2.01	0.83
Total tax payout	4.84	5.06	4.87	4.84
As a % of total tax payout				
GST	28	30	59	83
GST Cess	62	60	0	0
Basic Excise	0	0	0	0
NCCD	11	10	41	17
Total	100	100	100	100
As a % of MRP				
GST	13	15	29	40
GST Cess	2	3	0	0
GST Cess	27	27	0	0
Basic Excise	0	0	0	0
NCCD	5	5	20	8
Total	48	51	49	48

Source: Emkay Research

Negative implications

Any tax hike by way of tax changes will be seen negatively by the industry (legal players). In the last few years, taxation has been steady, paving the way for accelerated volume (legal) growth in the industry. We continue to see mid-single-digit taxation as accommodative, as it helps in hiking prices. Any tax hike in double digits would be negative.

Shift in GST imposition to MRP to be positive for ITC

If there is a shift in the GST levy to MRP, we see smaller players facing margin pressures as the tax incidence on the company's realization is currently low (~40% of MRP vs 100% on MRP) which implies healthy margin on offer for retail partners. Smaller peers will have to hike prices to protect margins which will have a bearing on their volumes. On steady pricing, either the smaller player will cut back on trade spending or manage with lower margins.

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

ITC: Standalone Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	654,251	693,223	781,478	893,571	1,003,002
Revenue growth (%)	(0.9)	6.0	12.7	14.3	12.2
EBITDA	244,629	240,236	265,823	313,548	349,480
EBITDA growth (%)	2.2	(1.8)	10.7	18.0	11.5
Depreciation & Amortization	16,478	14,419	14,951	16,670	16,796
EBIT	228,150	225,817	250,872	296,878	332,684
EBIT growth (%)	2.4	(1.0)	11.1	18.3	12.1
Other operating income	6,591	7,715	8,634	9,667	10,634
Other income	35,383	34,543	33,628	28,285	30,449
Financial expense	457	364	400	440	484
PBT	263,076	259,996	284,100	324,723	362,649
Extraordinary items	(76)	156,317	0	0	0
Taxes	63,622	64,370	70,457	81,181	92,476
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	199,378	351,944	213,643	243,542	270,174
PAT growth (%)	6.4	76.5	(39.3)	14.0	10.9
Adjusted PAT	199,453	195,627	213,643	243,542	270,174
Diluted EPS (Rs)	16.0	15.6	17.0	19.3	21.3
Diluted EPS growth (%)	6.4	(2.1)	8.6	13.4	10.4
DPS (Rs)	13.8	14.4	15.0	16.0	18.0
Dividend payout (%)	86.1	51.0	88.3	83.1	84.7
EBITDA margin (%)	37.4	34.7	34.0	35.1	34.8
EBIT margin (%)	34.9	32.6	32.1	33.2	33.2
Effective tax rate (%)	24.2	24.8	24.8	25.0	25.5
NOPLAT (pre-IndAS)	172,974	169,909	188,655	222,658	247,849
Shares outstanding (mn)	12,485	12,514	12,579	12,644	12,709

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	12,485	12,514	12,579	12,644	12,709
Reserves & Surplus	709,848	666,487	700,553	755,409	823,277
Net worth	715,116	673,583	707,714	762,635	830,567
Minority interests	-	-	-	-	-
Non-current liab. & prov.	20,837	25,564	27,609	29,817	32,203
Total debt	681	1,568	1,627	1,709	1,794
Total liabilities & equity	746,289	706,132	742,368	799,579	869,983
Net tangible fixed assets	250,215	194,466	243,515	254,845	266,774
Net intangible assets	0	0	0	0	0
Net ROU assets	-	-	-	-	-
Capital WIP	10,870	10,707	10,707	10,707	10,707
Goodwill	-	-	-	-	-
Investments [JV/Associates]	23,936	23,936	23,936	23,936	23,936
Cash & equivalents	385,629	367,779	359,186	396,245	436,075
Current assets (ex-cash)	195,408	237,786	244,941	266,003	296,936
Current Liab. & Prov.	126,987	133,960	145,335	157,575	169,864
NWC (ex-cash)	68,422	103,826	99,606	108,428	127,072
Total assets	746,289	706,132	742,368	799,579	869,983
Net debt	(384,948)	(366,211)	(357,559)	(394,536)	(434,281)
Capital employed	746,289	706,132	742,368	799,579	869,983
Invested capital	318,637	298,292	343,121	363,273	393,846
BVPS (Rs)	57.9	54.3	56.7	60.7	65.8
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.6)	(1.5)	(1.3)	(1.3)	(1.2)
Interest coverage (x)	576.3	716.3	711.5	739.3	750.6
RoCE (%)	37.7	37.1	40.8	43.8	45.2

Source: Company, Emkay Research

Cash flows					
Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	227,693	225,453	250,472	296,438	332,200
Others (non-cash items)	(5,677)	(167,377)	0	0	0
Taxes paid	(56,829)	(58,446)	(70,457)	(81,181)	(92,476)
Change in NWC	7,374	(30,678)	6,265	(6,614)	(16,258)
Operating cash flow	161,182	167,510	201,631	225,754	240,746
Capital expenditure	(26,016)	41,493	(64,000)	(28,000)	(28,725)
Acquisition of business	0	0	0	0	0
Interest & dividend income	20,069	20,063	33,628	28,285	30,449
Investing cash flow	21,276	1,415	(30,372)	(29,715)	(29,001)
Equity raised/(repaid)	14,428	7,973	65	65	65
Debt raised/(repaid)	(127)	886	60	81	85
Payment of lease liabilities	0	(2,439)	0	0	0
Interest paid	(457)	(364)	(400)	(440)	(484)
Dividend paid (incl tax)	(196,061)	(174,967)	(179,577)	(188,687)	(202,306)
Others	(334)	1,253	0	0	0
Financing cash flow	(182,550)	(167,656)	(179,852)	(188,980)	(202,639)
Net chg in Cash	(93)	1,269	(8,593)	7,059	9,106
OCF	161,182	167,510	201,631	225,754	240,746
Adj. OCF (w/o NWC chg.)	153,809	198,188	195,366	232,367	257,004
FCFF	135,166	209,003	137,631	197,754	212,021
FCFE	154,778	228,703	170,860	225,599	241,986
OCF/EBITDA (%)	65.9	69.7	75.9	72.0	68.9
FCFE/PAT (%)	77.6	65.0	80.0	92.6	89.6
FCFF/NOPLAT (%)	78.1	123.0	73.0	88.8	85.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	25.8	14.6	24.2	21.4	19.4
EV/CE(x)	6.7	7.1	6.7	6.3	5.7
P/B (x)	7.1	7.6	7.3	6.8	6.3
EV/Sales (x)	7.4	7.0	6.2	5.4	4.9
EV/EBITDA (x)	19.7	20.0	18.1	15.4	13.8
EV/EBIT(x)	21.1	21.3	19.2	16.2	14.5
EV/IC (x)	15.1	16.1	14.0	13.3	12.2
FCFF yield (%)	2.8	4.3	2.9	4.1	4.4
FCFE yield (%)	3.0	4.4	3.3	4.4	4.7
Dividend yield (%)	3.3	3.5	3.6	3.9	4.4
DuPont-RoE split					
Net profit margin (%)	30.5	28.2	27.3	27.3	26.9
Total asset turnover (x)	0.9	1.0	1.1	1.2	1.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	28.5	27.9	30.7	32.9	33.7
DuPont-RoIC					
NOPLAT margin (%)	26.4	24.5	24.1	24.9	24.7
IC turnover (x)	2.1	2.2	2.4	2.5	2.6
RoIC (%)	55.4	55.1	58.8	63.0	65.5
Operating metrics					
Core NWC days	38.2	54.7	46.5	44.3	46.2
Total NWC days	38.2	54.7	46.5	44.3	46.2
Fixed asset turnover	1.5	1.6	1.8	1.8	1.9
Opex-to-revenue (%)	21.4	19.6	19.6	18.8	18.4

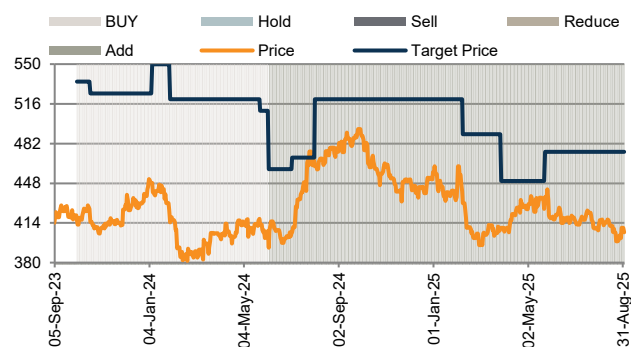
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
17-Aug-25	411	475	Add	Nitin Gupta
01-Aug-25	416	475	Add	Nitin Gupta
30-Jun-25	416	475	Add	Nitin Gupta
24-Jun-25	414	475	Add	Nitin Gupta
09-Jun-25	423	475	Add	Nitin Gupta
23-May-25	436	475	Add	Nitin Gupta
24-Apr-25	430	450	Add	Nitin Gupta
28-Mar-25	410	450	Add	Nitin Gupta
21-Mar-25	406	490	Add	Nitin Gupta
17-Mar-25	408	490	Add	Nitin Gupta
18-Feb-25	405	490	Add	Nitin Gupta
07-Feb-25	431	490	Add	Nitin Gupta
02-Feb-25	463	520	Add	Nitin Gupta
03-Jan-25	456	520	Add	Nitin Gupta
25-Oct-24	456	520	Add	Nitin Gupta
02-Oct-24	488	520	Add	Nitin Gupta
24-Sep-24	487	520	Add	Nitin Gupta
02-Aug-24	463	520	Add	Nitin Gupta
04-Jul-24	406	470	Add	Nitin Gupta
26-Jun-24	401	460	Add	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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