ITC | ADD

Mixed bag; all eyes on Cigarette EBIT recovery

ITC's Q1FY27 segmental EBIT (standalone) was ~7% below JMFe. Cigarette division net sales/EBIT declined 25%/35% YoY, and volume delivery (mid-single digit versus JMFe of 10% decline) was resilient despite a steep price hike (+25%). However, adverse mix (growth in DSFT versus decline in other segments, downtrading from KSFT/RSFT) and lower tax absorption due to staggered price hike led to net sales/EBIT decline being higher than expected. ITC has undertaken interventions such as launch of premium DSFT, strengthening Longs portfolio, KSFT slims (to enable EBIT neutral downtrading) along with price hikes. Its aim is to protect cigarette volume share and achieve pre-tax hike EBIT/stick by Q4FY27E. We expect EBIT fall to moderate in the incoming quarter. Although early, volume trends are better than expected, while price/mix impact is more adverse. Further hikes in RSFT (largest segment) and how the mix shapes up would be key to watch. FMCG performance was below expectation with transient issues in Aashirvaad Atta- and RM inflation-led impact on margins. Factoring in higher EBIT decline in cigarettes, we are cutting FY27E EPS by 7%. The stock is trading at 19x/17x FY27E/28E EPS (below LT average) and has a dividend yield of ~5%, which restricts the downside; maintain ADD with a TP of INR 320 (earlier INR 325).

- **Cigarette performance resilient amid regulatory challenges:** Gross revenue rose ~81% YoY, while net revenue dipped 25% YoY as volumes declined in mid-single digit (versus JMFe of 9–10%) and impact of steep hike in taxes was mitigated through staggered yet agile pricing actions. ITC's focus remained on protecting the consumer franchise and market share while mitigating the risk of accelerated volume shift to illicit trade. Cigarette EBIT declined 35% YoY to INR 33.4bn (~2% below our estimate) due to adverse mix and price hike being lower resulting in partial absorption of the tax impact. During the quarter, ITC undertook multiple interventions (new launches across segments) to re-architect and strengthen its product portfolio, leveraging powerful trademarks across segments and price points.

- **FMCG performance below expectations; margin delivery tempered by West Asia war-led cost inflation:** FMCG sales increased 12% YoY (+16% YoY ex-staples), ~2% below our estimate, driven by broad-based growth across categories (+20% YoY growth in dairy, snacks, noodles and frozen snacks, high-single-digit growth in biscuits). We estimate high-single-digit volume growth for the quarter. Aashirvaad Atta sales were affected by temporary factors like heat waves, LPG shortage and benign wheat prices. Sharp surge in key inputs amid the West Asia conflict was partially offset by strategic inventory covers and commodity hedges. Resultantly, EBITDA margin expanded ~55bps (ex-Sresta) to 10%, despite sustained trade and marketing investments. Ongoing impact on inputs would be proactively mitigated through focused cost management initiatives, revenue management and price-volume rebalancing. Digital-first and organic portfolio sustain strong trajectory clocking ARR of INR 1.5bn. EBIT grew 21% YoY with margin expansion of 54bps to 7.4% YoY (JMFe: 8%).

- **Agriculture segment remains under pressure; paper segment performance improves:** i) Agriculture business sales declined ~17% YoY, impacted by geopolitical (West Asia war) disruptions and high base. Underlying sales grew 9% YoY, adjusting for timing difference of wheat business (YoY) and war-related impact. EBIT fell 18.5% YoY with margin broadly flat YoY at 4.4%. ii) Paper business reported sales growth of ~9% YoY (~4% above JMFe) driven by better volume and net realisation. EBIT grew ~38% YoY with margin expanding ~200bps YoY to 9.7% (JMFe: 10%) due to moderating wood prices. Furthermore, input cost escalations due to the West Asia war were offset through cost management and judicious pricing actions. iii) Fresh food business – GMV up 90% YoY; ARR crosses INR 3bn with 75 kitchens across five cities.

Financial Summary (INR mn)

Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Net Sales	702,237	746,384	807,379	782,871	867,853
Sales Growth (%)	-0.3	6.3	8.2	-3.0	10.9
EBITDA	262,544	259,782	273,179	236,095	273,635
EBITDA Margin (%)	37.1	34.5	33.6	29.9	31.2
Adjusted Net Profit	204,664	197,306	209,812	183,708	212,288
Diluted EPS (INR)	16.4	15.8	16.7	14.6	16.8
Diluted EPS Growth (%)	6.6	-3.8	6.2	-12.7	15.2
ROIC (%)	53.8	54.1	59.3	48.4	55.4
ROE (%)	28.5	27.3	29.4	25.3	28.4
P/E (x)	17.1	10.1	17.0	19.2	16.7
P/B (x)	4.7	5.0	4.9	4.8	4.6
EV/EBITDA (x)	12.0	12.0	11.5	13.2	11.4
Dividend Yield (x)	4.9	5.1	5.2	4.6	5.4

Source: Company data, JM Financial. Note: Valuations as of July 31, 2026

Recommendation and Price Target

Current Reco.	ADD
Previous Reco.	ADD
Current Price Target (12M)	320
Upside/(Downside)	13.9%
Previous Price Target	325
Change	-1.5%

Key Data – ITC IN

Current Market Price	INR281
Market cap (bn)	INR3,520.8/US$36.9
Free Float (%)	55.6
Shares in issue (mn)	12,529.5
Diluted share (mn)	12,529.5
3-mon avg daily val (mn)	INR5,080.1/US$53.3
52-week range	INR427/275
Sensex/Nifty	78,095/24,384
INR/US$	95.4

Price Performance

%	1M	6M	12M
Absolute	-2.1	-12.8	-31.8
Relative*	-2.5	-6.5	-29.6

*To the NSE Nifty 50

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Exhibit 1: Q1FY27 segment snapshot – Price-led momentum in cigarette, stable FMCG and improving Paper business partially offset by Agri business

Standalone financials (INR mn)	Q1FY27	Q1FY26	YoY change %	Q1FY27E	% variance
Segment Revenue – Gross					
FMCG – Cigarettes	1,53,836	85,200	80.6%	1,45,347	5.8%
FMCG – Others	64,820	57,873	12.0%	65,858	-1.6%
Agri business	80,821	96,850	-16.6%	96,850	-16.6%
Paperboards, Paper & Packaging	23,072	21,158	9.1%	22,215	3.9%
Total	**3,22,548**	**2,61,082**	**23.5%**	**3,30,271**	**-2.3%**
Inter-segment	55,572	52,549	5.8%	66,054	-15.9%
Total Segment Revenue – Gross	**2,67,945**	**2,09,218**	**28.1%**	**2,64,217**	**1.4%**
Segment EBIT					
FMCG – Cigarettes	33,412	51,453	-35.1%	33,925	-1.5%
FMCG – Others	4,786	3,960	20.9%	5,269	-9.2%
Agri business	3,538	4,339	-18.5%	5,811	-39.1%
Paperboards, Paper & Packaging	2,242	1,626	37.9%	2,222	0.9%
Total Segment EBIT	**43,921**	**61,315**	**-28.4%**	**47,226**	**-7.0%**
Net unallocable expense	-3,674	-4,120	-10.8%	-3,564	3.1%
PBT before exceptional items	47,594	65,435	-27.3%	50,790	-6.3%
Adjusted Net Profit*	**35,788**	**49,107**	**-27.1%**	**38,346**	**-6.7%**
Segment EBIT margin %					
FMCG – Cigarettes	21.7%	60.4%	-3867 bps	23.3%	-162 bps
FMCG – Others	7.4%	6.8%	54 bps	8.0%	-62 bps
Agri business	4.4%	4.5%	-10 bps	6.0%	-162 bps
Paperboards	9.7%	7.7%	203 bps	10.0%	-28 bps
Segment EBIT	**16.4%**	**29.3%**	**-1292 bps**	**17.9%**	**-148 bps**

Source: Company, JM Financial. Adjusted Net profit is equivalent to Reported Net profit adjusted for exceptional item*(1-tax)

Exhibit 2: Quarterly financial performance – Standalone

INR mn	Q1FY25#	Q2FY25#	Q3FY25	Q4FY25#	Q1FY26#	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Gross sales	**1,74,567**	**1,96,862**	**1,80,555**	**1,82,667**	**2,09,218**	**1,91,484**	**1,92,745**	**2,14,634**	**2,67,945**
YoY	3.6%	12.2%	3.3%	9.2%	19.8%	-2.7%	6.8%	17.5%	28.1%
Excise duty	12,197	12,096	12,374	12,459	13,091	13,607	13,423	56,442	1,00,356
Other Operating Income	1,363	1,774	2,348	2,279	1,480	2,336	1,596	2,313	1,488
Total Revenue	**175,930**	**205,374**	**182,902**	**1,72,487**	**210,590**	**193,820**	**1,80,918**	**1,60,505**	**1,69,076**
Gross Profit	92,475	96,213	92,827	94,366	96,811	98,359	99,208	1,02,758	82,857
Staff cost	8,637	8,158	8,678	8,694	9,167	8,735	9,106	9,220	9,786
Other expenses	22,971	26,822	25,865	25,805	25,037	27,105	27,389	29,278	27,927
EBITDA	**60,868**	**61,233**	**58,284**	**59,867**	**62,607**	**62,520**	**62,714**	**64,260**	**45,143**
YoY	-2.6%	1.4%	-3.3%	2.5%	2.9%	2.1%	7.6%	7.3%	-27.9%
Depreciation	3,554	3,683	3,618	3,565	3,659	3,707	3,721	3,624	3,665
Interest	83	119	76	85	134	159	154	244	338
Other income	6,985	8,737	10,866	7,954	6,620	8,980	10,729	6,528	6,453
PBT	**64,216**	**66,168**	**65,456**	**64,171**	**65,435**	**67,634**	**69,568**	**66,919**	**47,594**
YoY	-1.9%	1.6%	-2.7%	2.1%	1.9%	2.2%	6.3%	4.3%	-27.3%
Tax	16,017	16,409	16,522	15,421	16,328	16,717	15,962	15,806	11,806
Reported PAT	**49,175***	**49,759**	**56,383***	**1,95,618***	**49,124**	**51,798**	**50,866**	**51,134**	**35,788**
YoY	0.3%	1.0%	1.2%	289.7%	-0.1%	4.1%	-9.8%	-73.9%	-27.1%
% of gross sales	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**	**Q2FY26**	**Q3FY26**	**Q4FY26**	**Q1FY27**
Gross margin	53.0%	48.9%	51.4%	51.7%	46.3%	51.4%	51.5%	47.9%	30.9%
Staff cost	4.9%	4.1%	4.8%	4.8%	4.4%	4.6%	4.7%	4.3%	3.7%
Other expenses	13.2%	13.6%	14.3%	14.1%	12.0%	14.2%	14.2%	13.6%	10.4%
EBITDA margin	34.9%	31.1%	32.3%	32.8%	29.9%	32.7%	32.5%	29.9%	16.8%

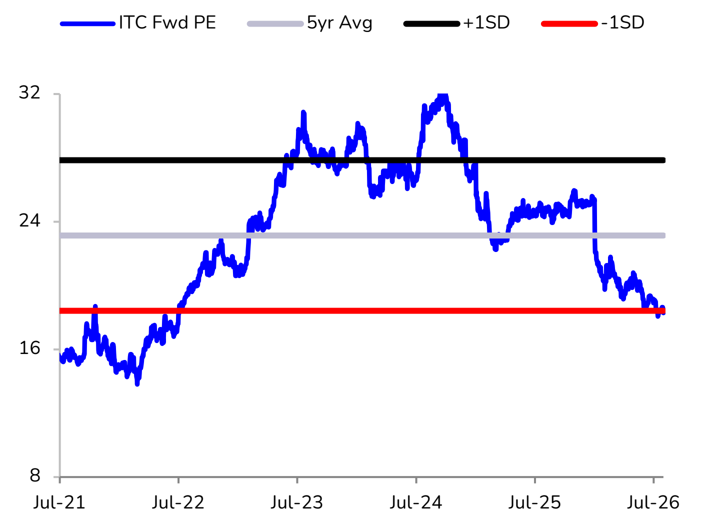
Source: Company, JM Financial. *Including profits from Hotels business treated as discontinuing operations. #restated figures

Exhibit 3: Quarterly segmental overview – Standalone

INR mn	Q1FY25#	Q2FY25#	Q3FY25	Q4FY25#	Q1FY26#	Q2FY26	Q3FY26	Q4FY26	Q1FY27
Cigarette volume growth	3.0%	3.0%	5.0%	5.0%	6.5%	6.0%	7.0%	NA	Mid-single digit decline
Segment Sales									
FMCG – Cigarettes	79,181	81,773	81,363	83,996	85,200	87,228	87,908	1,10,660	1,53,836
YoY	6.1%	6.8%	7.8%	6.0%	7.6%	6.7%	8.0%	31.7%	80.6%
FMCG – Others	54,910	55,777	54,182	54,946	57,873	59,644	60,197	63,037	64,820
YoY	6.3%	5.4%	4.0%	3.7%	5.4%	6.9%	11.1%	14.7%	12.0%
FMCG Total	**134,091**	**137,550**	**135,545**	**138,942**	**143,074**	**146,873**	**148,105**	**1,73,698**	**2,18,655**
YoY	**6.2%**	**6.2%**	**6.2%**	**5.1%**	**6.7%**	**6.8%**	**9.3%**	**25.0%**	**52.8%**
Agri Business	69,733	57,805	33,508	36,492	96,850	39,762	35,603	30,749	80,821
YoY	22.2%	47.1%	9.7%	17.7%	38.9%	-31.2%	6.3%	-15.7%	-16.6%
Paperboards, Paper & Packaging	19,767	21,141	21,445	21,876	21,158	22,199	22,024	22,275	23,072
YoY	-6.8%	2.1%	3.1%	5.5%	7.0%	5.0%	2.7%	1.8%	9.1%
Segment EBIT									
FMCG – Cigarettes	49,596	50,234	49,240	51,179	51,453	52,407	51,770	54,882	33,412
YoY	6.5%	5.1%	4.1%	4.0%	3.7%	4.3%	5.1%	7.2%	-35.1%
FMCG – Others	4,759	4,418	3,171	3,449	3,960	4,404	4,504	5,207	4,786
YoY	10.4%	0.7%	-26.6%	-27.7%	-16.8%	-0.3%	42.0%	51.0%	20.9%
FMCG Total	**54,355**	**54,652**	**52,412**	**54,628**	**55,413**	**56,810**	**56,275**	**60,089**	**38,198**
YoY	**6.9%**	**4.7%**	**1.6%**	**1.2%**	**1.9%**	**3.9%**	**7.4%**	**10.0%**	**-31.1%**
Agri Business	3,558	4,547	4,125	2,551	4,339	4,591	4,240	1,795	3,538
YoY	0.0%	27.5%	21.6%	25.9%	21.9%	1.0%	2.8%	-29.6%	-18.5%
Paperboards, Paper & Packaging	2,613	2,425	2,055	2,022	1,626	1,910	1,979	2,452	2,242
YoY	-44.7%	-23.2%	-30.6%	-31.1%	-37.8%	-21.2%	-3.7%	21.2%	37.9%

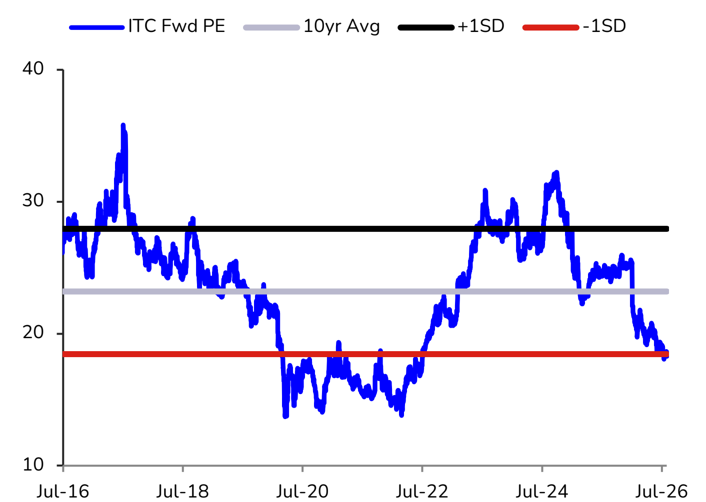
Source: Company, JM Financial. #restated figures.

Exhibit 4: Five-year average PE Band



Source: Bloomberg, JM Financial

Exhibit 5: Ten-year average PE Band



Source: Bloomberg, JM Financial

Exhibit 6: Changes in estimates

INR mn	Revised		Earlier		Change (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Sales	7,82,871	8,67,853	7,95,552	8,63,675	-1.6%	0.5%
EBITDA	2,36,095	2,73,635	2,54,221	2,78,364	-7.1%	-1.7%
PAT	1,83,708	2,12,288	1,96,997	2,15,007	-6.7%	-1.3%
EPS	14.6	16.8	15.7	17.1	-6.7%	-1.3%

Source: JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Net Sales	702,237	746,384	807,379	782,871	867,853
Sales Growth (%)	-0.3	6.3	8.2	-3.0	10.9
Other Operating Income	5,655	6,700	6,551	7,046	7,811
Total Revenue	**707,892**	**753,084**	**813,930**	**789,917**	**875,664**
Cost of Goods Sold/Op. Exp	271,554	319,638	350,725	358,847	390,486
Personnel Cost	61,344	61,698	67,815	74,597	80,564
Other Expenses	112,451	111,966	122,211	120,379	130,979
EBITDA	**262,544**	**259,782**	**273,179**	**236,095**	**273,635**
EBITDA Margin (%)	37.1	34.5	33.6	29.9	31.2
EBITDA Growth (%)	2.3	-1.1	5.2	-13.6	15.9
Depn. & Amort.	18,164	16,463	17,105	17,552	18,182
EBIT	244,380	243,319	256,074	218,543	255,453
Other Income	1,763	1,621	2,011	-	-
Finance Cost	460	451	852	1,566	1,562
PBT before Excep. & Forex	271,198	268,165	279,480	243,275	281,202
Excep. & Forex Inc./Loss(-)	-	-	-	-	-
PBT	271,198	268,165	279,480	243,275	281,202
Taxes	63,885	68,905	70,152	60,819	70,301
Extraordinary Inc./Loss(-)	-76	150,160	-2,917	-	-
Assoc. Profit/Min. Int.(-)	3,202	4,163	7,058	6,908	7,924
Reported Net Profit	204,588	347,466	206,895	183,708	212,288
Adjusted Net Profit	**204,664**	**197,306**	**209,812**	**183,708**	**212,288**
Net Margin (%)	28.9	26.2	25.8	23.3	24.2
Diluted Share Cap. (mn)	12,485	12,514	12,530	12,567	12,605
Diluted EPS (INR)	**16.4**	**15.8**	**16.7**	**14.6**	**16.8**
Diluted EPS Growth (%)	6.6	-3.8	6.2	-12.7	15.2
Total Dividend + Tax	171,630	179,372	181,682	163,168	190,676
Dividend Per Share (INR)	13.7	14.3	14.5	13.0	15.1

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Shareholders Fund	748,900	703,979	728,730	735,483	776,157
Share Capital	12,485	12,514	12,530	12,567	12,605
Reserves & Surplus	732,585	687,786	712,544	716,431	753,798
Preference Share Capital	-	-	-	-	-
Minority Interest	3,830	3,679	3,657	6,485	9,754
Total Loans	113	913	21,862	21,862	21,862
Def. Tax Liab. / Assets (-)	20,693	24,945	29,344	29,344	29,344
Other non-current liabilities / Lease Liabilities	2,922	1,933	2,128	2,171	2,214
Total - Equity & Liab.	**751,934**	**706,825**	**752,721**	**759,517**	**800,234**
Net Fixed Assets	297,419	224,639	235,434	242,046	249,610
Gross Fixed Assets	390,416	329,033	349,813	373,977	399,723
Intangible Assets	-	-	-	-	-
Less: Depn. & Amort.	121,605	115,303	130,398	147,950	166,132
Capital WIP	28,608	10,909	16,019	16,019	16,019
Investments	311,140	347,198	381,284	381,284	381,284
Current Assets	299,590	302,371	314,644	318,097	365,765
Inventories	143,029	158,361	188,727	182,998	200,485
Sundry Debtors	40,258	47,197	39,229	38,038	42,167
Cash & Bank Balances	75,473	52,889	30,088	42,178	62,273
Loans & Advances	26,997	30,206	38,765	37,588	41,668
Other Current Assets	13,832	13,719	17,836	17,295	19,172
Current Liab. & Prov.	144,913	148,257	154,307	157,677	172,294
Current Liabilities	131,552	132,129	133,285	136,507	148,389
Provisions & Others	13,361	16,128	21,022	21,170	23,905
Net Current Assets	154,676	154,114	160,337	160,420	193,471
Other Non Current Assets/ROU Assets	9,391	5,819	5,010	5,110	5,213
Total - Assets	**751,934**	**706,825**	**752,721**	**759,517**	**800,234**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Profit before Tax	271,198	268,165	279,480	243,275	281,202
Depn. & Amort.	18,164	19,506	17,105	17,552	18,182
Net Interest Exp. / Inc. (-)	-26,819	-24,846	-23,406	-24,732	-25,749
Inc (-) / Dec in WCap.	-33,370	-27,420	-27,623	12,673	-14,862
Others	3,811	4,368	2,823	1,251	1,387
Taxes Paid	-61,196	-63,502	-63,736	-61,484	-68,395
Operating Cash Flow	**171,789**	**176,270**	**184,643**	**188,535**	**191,765**
Capex	-34,551	-21,033	-21,324	-24,164	-25,746
Free Cash Flow	137,238	155,238	163,319	164,371	166,019
Inc (-) / Dec in Investments	39,101	9,116	-6,920	-	-
Others	11,077	7,958	5,037	26,297	27,311
Investing Cash Flow	**15,628**	**-3,958**	**-23,207**	**2,133**	**1,565**
Inc / Dec (-) in Capital	14,428	7,973	4,049	2,038	2,038
Dividend + Tax thereon	-198,992	-177,628	-182,720	-181,820	-176,921
Inc / Dec (-) in Loans	186	436	20,242	-	-
Others	-1,131	-1,155	-3,042	1,205	1,648
Financing Cash Flow	**-185,510**	**-170,374**	**-161,471**	**-178,578**	**-173,235**
Inc / Dec (-) in Cash	**1,907**	**1,938**	**-36**	**12,090**	**20,094**
Opening Cash Balance	73,567	50,951	30,123	30,088	42,178
Closing Cash Balance	75,473	52,889	30,088	42,178	62,273

Source: Company, JM Financial

Dupont Analysis					
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Net Margin (%)	28.9	26.2	25.8	23.3	24.2
Asset Turnover (x)	1.0	1.0	1.1	1.0	1.1
Leverage Factor (x)	1.0	1.0	1.1	1.1	1.1
RoE (%)	28.5	27.3	29.4	25.3	28.4

Source: Company, JM Financial

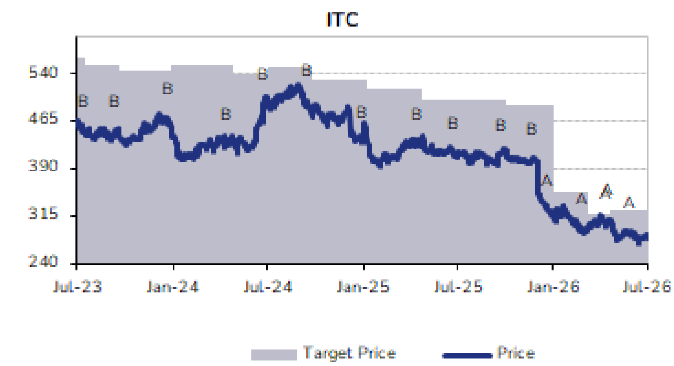
Key Ratios					
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
BV/Share (INR)	59.7	56.0	57.9	58.0	60.8
ROIC (%)	53.8	54.1	59.3	48.4	55.4
ROE (%)	28.5	27.3	29.4	25.3	28.4
Net Debt/Equity (x)	-0.5	-0.6	-0.5	-0.5	-0.5
P/E (x)	17.1	10.1	17.0	19.2	16.7
P/B (x)	4.7	5.0	4.9	4.8	4.6
EV/EBITDA (x)	12.0	12.0	11.5	13.2	11.4
EV/Sales (x)	4.4	4.1	3.9	4.0	3.6
Debtor days	21	23	18	18	18
Inventory days	74	77	85	85	84
Creditor days	108	98	90	90	90

Source: Company, JM Financial

ITC – Recommendation history table

Date	Recommendation	Target Price	% Chg.
6-Jul-26	ADD	325	0.0
26-May-26	ADD	325	0.0
22-May-26	ADD	325	1.6
7-Apr-26	ADD	320	-9.9
30-Jan-26	ADD	355	-27.6
1-Jan-26	BUY	490	0.0
31-Oct-25	BUY	490	-2.0
1-Aug-25	BUY	500	0.0
23-May-25	BUY	500	-2.9
7-Feb-25	BUY	515	-2.8
24-Oct-24	BUY	530	-3.6
1-Aug-24	BUY	550	1.9
24-May-24	BUY	540	-2.7
30-Jan-24	BUY	555	1.8
20-Oct-23	BUY	545	-1.8
14-Aug-23	BUY	555	-1.8
24-Jul-23	BUY	565	18.9
18-May-23	BUY	475	8.0
26-Mar-23	BUY	440	0.0
3-Feb-23	BUY	440	

ITC – Recommendation history chart



APPENDIX I

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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Rating	**Meaning**
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ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

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