

Long Tail to De-addiction Due to Demographics

ITC operates across a unique set of industries that combines demand stability, pricing power, and long-term optionality, creating a rare blend of cash generation and compounding potential. The cigarette industry, despite regulatory overhangs, continues to exhibit high entry barriers, resilient consumption behavior, and superior return metrics, making it one of the most defensible profit pools in Indian consumer markets. Simultaneously, India's under-penetration of legal cigarettes relative to global benchmarks provides a long runway for volume normalisation under a more stable tax regime. The FMCG industry in India is undergoing a multi-year shift driven by rising incomes, premiumisation, and urbanisation, where scale, distribution depth, and brand trust are decisive advantages. ITC's presence across staples, convenience foods, personal care, and hygiene positions it directly in the path of this consumption upgrade. The sector also benefits from increasing channel diversification, including modern trade and e-commerce, where incumbents with supply chain control gain disproportionate share. Packaging and paper address the secular shift towards sustainable consumption, regulatory pushback against plastics, and increasing demand from food, pharmaceuticals, and e-commerce. Critically, these industries are interconnected, enabling operating leverage, sourcing efficiencies, and cross-segment reinforcement that standalone players cannot replicate. The result is a portfolio aligned with India's consumption growth, sustainability transition, and formalisation of the economy.

Market Reaction Overstate Adverse Impact on Fundamentals

The ITC stock has corrected by more than 20% since the announcement of the new cigarette tax regime effective 1 February 2026, reflecting heightened investor anxiety around regulatory risk and long-term volume sustainability. However, the equity market reaction materially overstates the economic impact of the tax increase on ITC's underlying earnings power. Historically, cigarette tax hikes in India have led to sharp near-term stock price corrections, followed by gradual normalization as actual outcomes prove less severe than feared. The current episode fits the same pattern. While the new regime increases specific excise incidence, the incremental burden is largely passed on to consumers, with limited impact on ITC's net realization per stick. Moreover, higher taxation accelerates down-trading and industry consolidation, disproportionately benefiting ITC given its dominant share in the legal cigarette market. The market has priced in a sharp and sustained deterioration in volumes and margins, despite evidence from prior tax cycles that volume declines remain low single digit and margins bounces back again through pricing, mix, and cost discipline. Importantly, the government's objective remains revenue maximization rather than industry destruction, which implicitly caps the severity of effective taxation. As a result, the current valuation embeds a pessimistic outlook that is inconsistent with ITC's historical ability to absorb regulatory shocks. The disconnect between stock price reaction and fundamental impact creates an opportunity, as earnings visibility remains intact while sentiment-driven derating has compressed multiples below long-term averages.

We initiate BUY with a price target of Rs. 485

Regulatory concerns around cigarettes have triggered a sharp derating, despite historical evidence of limited long-term impact on earnings and cash generation. India's structurally under-penetrated legal cigarette market provides asymmetric upside under even modest policy normalisation, with ITC best placed to benefit from consolidation and pricing power. FMCG has transitioned into a profitable growth engine, supported by scale, premiumisation, and operating leverage. The Agri and Packaging businesses enhance earnings diversification while reinforcing group-level synergies. Current valuations embed excessive pessimism and underappreciate medium-term earnings visibility. Hence, we value ITC at **25x FY28E EPS**, reflecting resilient cash flows, compounding growth, and synergy-led business arrangement.

05 Feb 2026

BUY

Company Data

| | |
|------------------------|------------------|
| Ticker/CMP | ITC / Rs. 314 |
| Price Target Upside% | Rs. 485 54% |
| Market Cap | Rs. 3,92,917 Cr. |
| Stock P/E | 19.2 |
| Dividend Yield | 3% |
| Outstanding shares | 1,252 Cr. |
| Free Float | 76.70% |
| 52w High/Low | 460 / 302 |

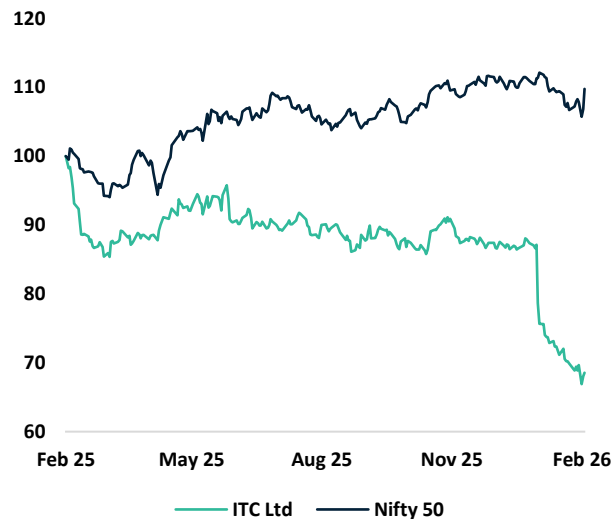
Shareholding Pattern %

| | Jun 25 | Sep 25 | Dec 25 |
|--------------|--------|--------|--------|
| Promotor | 0.00 | 0.00 | 0.00 |
| FII | 37.97 | 37.38 | 36.10 |
| DII | 33.14 | 33.10 | 32.71 |
| Mutual Funds | 13.75 | 14.29 | 16.16 |
| Retail | 15.14 | 15.22 | 15.02 |

Key Financial Data

| (Rs. Crore) | FY25 | FY26 F | FY27 F | FY28 F |
|--------------------|--------|--------|--------|----------|
| Revenue | 81,613 | 87,081 | 92,604 | 1,00,486 |
| EBIT | 35,529 | 37,609 | 36,161 | 42,609 |
| EBIT Margin% | 44% | 43% | 39% | 42% |
| Net Profit | 35,052 | 21,344 | 19,677 | 23,724 |
| Net Profit Margin% | 43% | 25% | 21% | 24% |
| EPS | 27.99 | 17.05 | 15.71 | 18.95 |
| Total Assets | 88,091 | 90,969 | 93,065 | 95,674 |
| ROE% | 50% | 30% | 27% | 31% |

Stock VS Index Performance



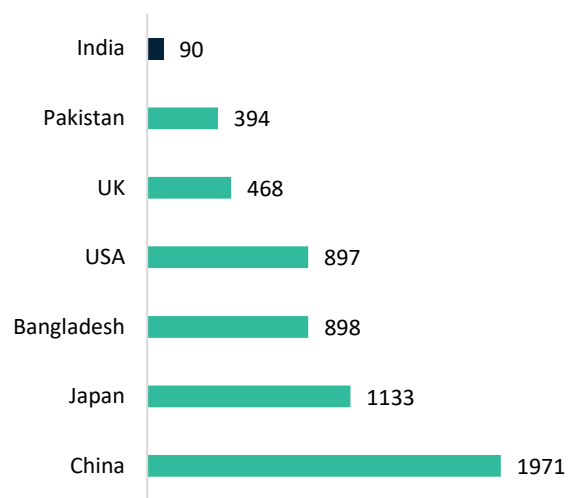
Market Suppression via Taxation Limits the Effectiveness of Further Hikes

Despite being the world’s second-largest tobacco consumer, India remains one of the most under-penetrated cigarette markets globally, with legal cigarettes accounting for only ~10% of total tobacco consumption versus ~90% globally. This extreme skew is not demand-driven but policy-induced, resulting from decades of punitive and discriminatory taxation on cigarettes relative to other tobacco formats. Ironically, while such taxation was intended to curb tobacco usage, aggregate tobacco consumption has increased over time, with consumers merely shifting toward tax-evaded and lightly taxed alternatives such as bidis, chewing tobacco, and illicit cigarettes. This distortion creates a massive hidden opportunity for the legal cigarette industry. Duty-paid cigarettes, despite representing just one-tenth of total consumption, already contribute over 80% of tobacco tax revenues, underscoring their superior fiscal efficiency. India’s cigarette taxes are multiple times higher than developed markets and even neighbouring countries, suggesting further steep hikes counterproductive. Historical evidence clearly shows that periods of stable taxation have delivered strong volume recovery and double-digit tax revenue growth, whereas sharp increases have hurt both volumes and tax collections. From a policy standpoint, the government is now approaching the point of diminishing returns. Any rational move toward tax moderation would immediately benefit legal players through volume migration from illicit products, operating leverage, and revenue buoyancy. For incumbents like ITC, with dominant market share, pricing power, deep distribution, and regulatory compliance, this creates a rare setup where downside is capped by addiction economics and upside is unlocked by policy normalisation. Hence, India’s cigarette industry is not challenged, it is suppressed. When taxation shifts from punitive to pragmatic, even marginally, legal cigarette players stand to capture disproportionate gains in volumes, margins, and cash flows.

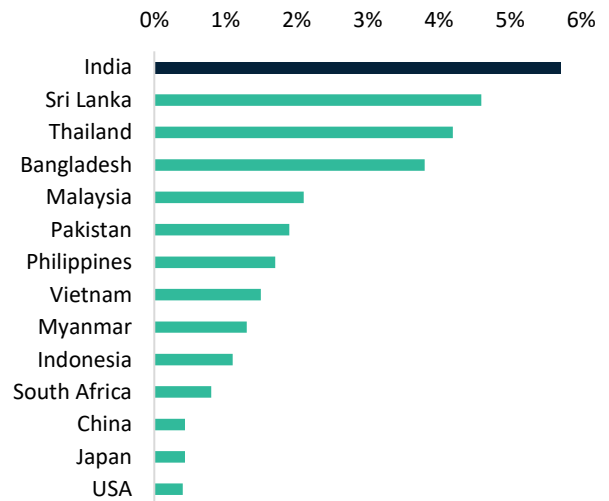
An Underappreciated Long-Term Compounding Engine

ITC’s FMCG business represents one of the most underappreciated long-term compounding stories within Indian consumer staples. Over FY03-FY25, segment revenues have scaled from sub Rs. 500 crore levels to ~Rs. 22,000 crore, implying a multi-decade CAGR driven by disciplined capital allocation, brand-building and distribution leverage. The business has transitioned from a loss-making adjunct to a structurally profitable growth engine, with segment EBITDA margins expanding from ~2.5% in FY17 to ~9.8% in FY25, validating the operating leverage embedded in the model. ITC today operates across 40+ categories with over 2,900 SKUs, supported by one of the widest FMCG distribution networks in India, servicing ~2.9 million outlets directly and ~7 million in total reach. Market leadership positions across categories such as Aashirvaad Atta, Sunfeast Cream Biscuits, Bingo bridges snacks, Classmate notebooks and Mangaldeep agarbattis provide scale advantages and pricing power over time. The company’s owned ICML infrastructure, with over 200 factories and ~6.1 million sq ft warehousing, materially lowers supply chain risk and improves freshness, service levels and cost efficiency. Strategic acquisitions including Sunrise Foods, Prasuma, 24 Mantra Organic and Mother Sparsh accelerate portfolio premiumisation and expand addressable markets across spices, frozen foods, organics and mother-care. Margin expansion is being driven by sharper cost management, portfolio mix enrichment, pricing actions and premiumisation across personal care and foods. Importantly, FMCG segment benefits from ITC’s unique institutional strengths including agri sourcing linkages, in-house packaging expertise and R&D capabilities via LSTC. With rising urbanisation, premium consumption, health and nutrition focus, and exports to over 70 countries, ITC’s FMCG-Others business is entering a phase of sustained profitable growth.

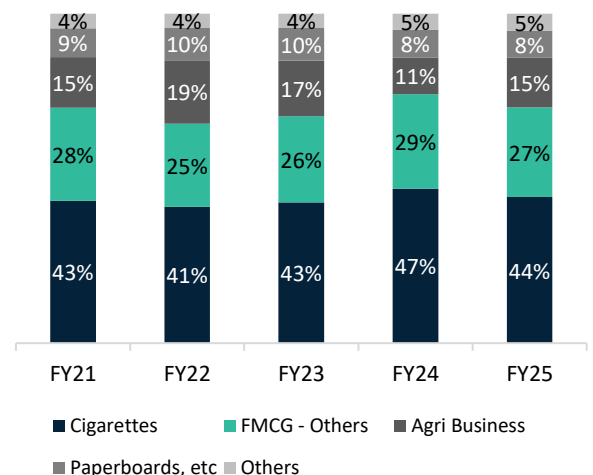
Per Capital Consumption of Cigarettes



Tax on Cigarettes as a % of Per Capita GDP



Revenue Mix

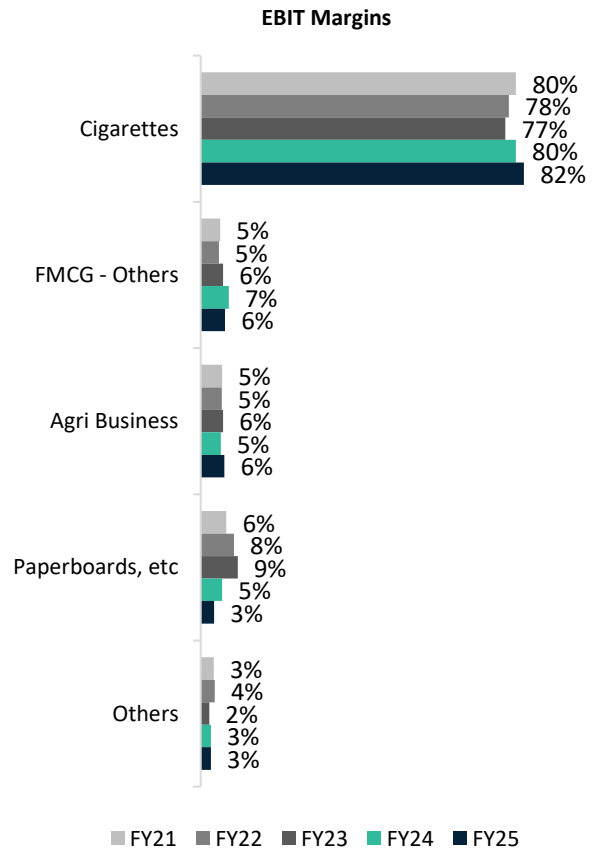
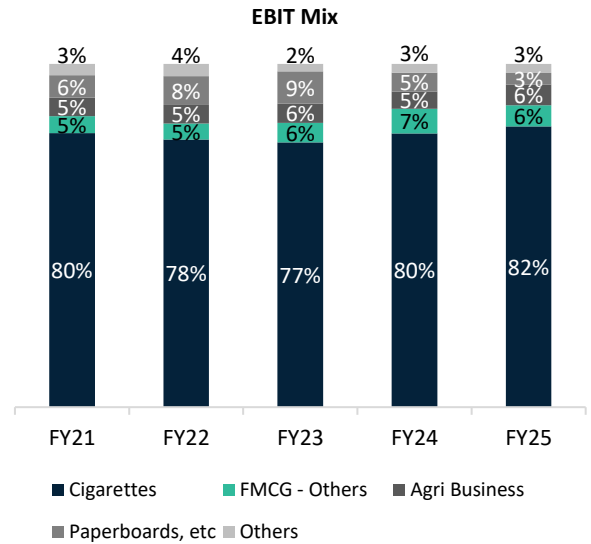


Agri Business Transitioning Beyond Commodity Trading

ITC's Agri Business is evolving into a NextGen, technology-led, value-added agri platform with structural profitability and strategic relevance across the group. As India's leading agri business player, ITC operates at unmatched scale, sourcing over 3.5 million tonnes annually across 22 states and more than 20 agri value chains, giving it deep on-ground control, resilience, and sourcing efficiency. The business is pioneering rural transformation through ITCMAARS, a crop-agnostic, full-stack phygital AgriTech ecosystem that integrates AI/ML-driven advisory, climate-smart solutions, market linkages, agri inputs, and credit enablement. With over 2,050 FPOs and 20 lakh plus registered farmers, ITCMAARS creates powerful data, sourcing, and engagement moats that competitors cannot replicate without years of investment and trust-building. Nearly 40% of wheat sourcing for Aashirvaad is now routed through ITCMAARS, strengthening ITC's Foods business margins while reducing volatility and dependency on intermediaries. A key growth driver is the rapid scale-up of Value-Added Agri Products (VAAP) across spices, coffee, frozen marine products, processed fruits, aqua and nicotine derivatives. ITC's world-class processing infrastructure and global quality certifications allow it to serve demanding markets such as the US, EU, and Japan. Critically, the Agri Business delivers best-in-class profitability despite operating in volatile markets, supported by superior sourcing, scale economics, digital execution, and customer stickiness. It also acts as a strategic backbone for ITC's FMCG Foods expansion, creating a closed-loop advantage that peers lack. Looking ahead, the combination of climate resilience, export-led VAAP growth, ITCMAARS-driven efficiencies, and deeper integration with FMCG creates a multi-year growth runway. The segment is evolving as a technology-enabled agri platform rather than a trading business.

Acquisition Strengthening Scale and Value-Added Portfolio

ITC's Paperboards, Paper and Packaging (PPP) Business has leadership in value-added paperboards and a fully integrated, cost-competitive operating model. The business is increasingly positioned as a sustainability-led growth platform, driven by innovations that provide eco-friendly substitutes for single-use plastics, aligning strongly with regulatory shifts and FMCG brand priorities. ITC's backward-integrated fibre sourcing, anchored in over 13 lakh acres of cumulative plantations, ensures security of supply, cost competitiveness, and superior environmental performance. The recently signed Business Transfer Agreement to acquire Century Pulp & Paper from Aditya Birla Real Estate is a strong strategic fit. The acquisition enhances scale, product depth, and integration across pulp, paper, and packaging, while strengthening ITC's leadership in value-added segments with higher entry barriers. Near term, the segment has faced a challenging operating environment. Soft domestic demand and aggressive low-priced imports from China and Indonesia have pressured realisations, especially after record industry profitability in FY23. Strategically, the PPP business plays a critical role in supporting ITC's FMCG and Cigarettes businesses by enabling faster product launches, innovative packaging formats, sustainability transitions, and assured supply security. This internal synergy is underappreciated. Over the medium term, recovery in demand, import normalisation, increasing substitution of plastics, and benefits from the Century acquisition are expected to drive earnings normalisation and reinforce ITC's leadership in sustainable packaging solutions.



Income Statement

In ₹Crore

| Particulars | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 F | FY27 F | FY28 F |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 53,155 | 65,205 | 76,518 | 73,891 | 81,613 | 87,081 | 92,604 | 1,00,486 |
| COGS | (24,014) | (30,922) | (34,587) | (32,940) | (38,268) | (41,259) | (47,741) | (48,500) |
| Gross Margins | 29,141 | 34,283 | 41,931 | 40,951 | 43,345 | 45,821 | 44,863 | 51,987 |
| Employee Expenses | (4,463) | (4,891) | (5,736) | (5,549) | (6,170) | (6,699) | (7,124) | (7,730) |
| EBITDA | 24,678 | 29,392 | 36,195 | 35,403 | 37,175 | 39,123 | 37,740 | 44,257 |
| Depreciation and Amortisation | (1,646) | (1,732) | (1,809) | (1,518) | (1,646) | (1,514) | (1,579) | (1,647) |
| EBIT | 23,032 | 27,660 | 34,386 | 33,885 | 35,529 | 37,609 | 36,161 | 42,609 |
| Interest Expense | (45) | (39) | (43) | (39) | (45) | (51) | (52) | (53) |
| Other expenses | (5,043) | (6,898) | (8,549) | (7,460) | (8,667) | (9,405) | (10,164) | (11,253) |
| EBT From Core | 17,945 | 20,723 | 25,793 | 26,386 | 26,817 | 28,152 | 25,945 | 31,303 |
| Total Gain/Loss from non-core | (7) | 17 | 49 | 575 | 15,126 | 110 | 110 | 110 |
| Total EBT | 17,938 | 20,740 | 25,842 | 26,961 | 41,943 | 28,263 | 26,055 | 31,414 |
| Taxes | (4,555) | (5,237) | (6,438) | (6,209) | (6,890) | (6,919) | (6,378) | (7,690) |
| Profit After Tax | 13,383 | 15,503 | 19,404 | 20,751 | 35,052 | 21,344 | 19,677 | 23,724 |
| EPS | 10.88 | 12.58 | 15.63 | 16.62 | 27.99 | 17.05 | 15.71 | 18.95 |

Cashflow Statement

In ₹Crore

| Particulars | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 F | FY27 F | FY28 F |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Profit Before Tax | 17,938 | 20,740 | 25,915 | 27,140 | 42,582 | 28,263 | 26,055 | 31,414 |
| Adjustments | 1,716 | 1,805 | 1,913 | 1,970 | 2,134 | 1,565 | 1,631 | 1,701 |
| Change In Working Capital | (413) | (100) | (924) | (3,337) | (2,742) | 1,595 | (885) | (1,263) |
| Income Taxes Paid | (4,387) | (4,982) | (6,250) | (6,120) | (6,350) | (6,919) | (6,378) | (7,690) |
| Cashflow From Operating Activities | 14,855 | 17,464 | 20,653 | 19,653 | 35,624 | 24,504 | 20,423 | 24,161 |
| Payments For PP&E | (1,837) | (2,142) | (2,743) | (3,563) | (2,279) | (2,265) | (2,363) | (2,465) |
| Other Investing Activities | 5,191 | (1,785) | (4,765) | 2,651 | (16,114) | (2,801) | (24) | 47 |
| Cashflow From Investing Activities | 3,355 | (3,927) | (7,508) | (911) | (18,393) | (5,067) | (2,387) | (2,418) |
| Other Financing Activities | 248 | 208 | 2,412 | 1,348 | 745 | (51) | (52) | (53) |
| Dividend Paid | (18,881) | (13,788) | (15,418) | (19,899) | (17,782) | (19,470) | (17,949) | (21,641) |
| Cashflow From Financing Activities | (18,634) | (13,581) | (13,006) | (18,551) | (17,037) | (19,521) | (18,001) | (21,694) |
| Cash At The Beginning Of The Year | 677 | 310 | 267 | 406 | 597 | 622 | 539 | 573 |
| Net Change In Cash | (367) | (43) | 139 | 191 | 26 | (84) | 34 | 49 |
| Cash At The End Of The Year | 310 | 267 | 406 | 597 | 622 | 539 | 573 | 622 |

Balance Sheet

In ₹Crore

| Particulars | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 F | FY27 F | FY28 F |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| ASSETS | | | | | | | | |
| Non-current assets | | | | | | | | |
| Property, plant and equipment | 19,154 | 20,207 | 21,117 | 23,082 | 17,429 | 18,180 | 18,964 | 19,782 |
| Other non-current assets | 19,673 | 22,820 | 25,095 | 27,678 | 26,769 | 26,769 | 26,769 | 26,769 |
| Total Non-Current Assets | 38,827 | 43,027 | 46,212 | 50,761 | 44,197 | 44,949 | 45,733 | 46,550 |
| Current assets | | | | | | | | |
| Inventories | 10,397 | 10,864 | 11,771 | 14,153 | 15,638 | 15,660 | 16,654 | 18,071 |
| Trade receivables | 2,502 | 2,462 | 2,956 | 4,026 | 4,720 | 4,106 | 4,367 | 4,738 |
| Cash and cash equivalents | 290 | 271 | 463 | 626 | 620 | 536 | 570 | 619 |
| Bank balances other than Cash and cash equivalents | 4,369 | 4,383 | 4,417 | 6,592 | 3,392 | 3,392 | 3,392 | 3,392 |
| Other current assets | 17,434 | 16,252 | 20,063 | 15,669 | 19,524 | 22,325 | 22,350 | 22,303 |
| Total Current Assets | 34,992 | 34,232 | 39,671 | 41,066 | 43,893 | 46,020 | 47,333 | 49,124 |
| Total Assets | 73,819 | 77,260 | 85,883 | 91,826 | 88,091 | 90,969 | 93,065 | 95,674 |
| EQUITY AND LIABILITIES | | | | | | | | |
| Equity | | | | | | | | |
| Equity share capital | 1,231 | 1,232 | 1,243 | 1,248 | 1,251 | 1,251 | 1,251 | 1,251 |
| Other Equity | 59,463 | 61,590 | 68,296 | 73,642 | 69,147 | 71,020 | 72,748 | 74,830 |
| Total Equity | 60,694 | 62,822 | 69,539 | 74,890 | 70,398 | 72,272 | 73,999 | 76,082 |
| Liabilities | | | | | | | | |
| Total Non-Current Liabilities | 2,435 | 2,274 | 2,605 | 3,246 | 3,359 | 3,359 | 3,359 | 3,359 |
| Current Liabilities | | | | | | | | |
| Trade payables | 4,319 | 4,417 | 4,659 | 4,798 | 4,807 | 5,812 | 6,181 | 6,707 |
| Other non-current liabilities | 6,371 | 7,746 | 9,080 | 8,893 | 9,527 | 9,527 | 9,527 | 9,527 |
| Total Current Liabilities | 10,690 | 12,164 | 13,739 | 13,690 | 14,334 | 15,339 | 15,707 | 16,234 |
| Total Equity and Liabilities | 73,819 | 77,260 | 85,883 | 91,826 | 88,091 | 90,969 | 93,065 | 95,674 |

Ratios

| Particulars | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 F | FY27 F | FY28 F |
|----------------------------|------|------|------|------|------|--------|--------|--------|
| Sales Growth | | 23% | 17% | -3% | 10% | 7% | 6% | 9% |
| EBITDA Growth | | 19% | 23% | -2% | 5% | 5% | -4% | 17% |
| EBIT Growth | | 20% | 24% | -1% | 5% | 6% | -4% | 18% |
| EBT Growth | | 15% | 24% | 2% | 2% | 6% | -7% | 21% |
| Net profit Growth | | 16% | 25% | 7% | 69% | -39% | -7% | 21% |
| EBITDA Margin | 46% | 45% | 47% | 48% | 46% | 45% | 41% | 44% |
| EBIT Margin | 43% | 42% | 45% | 46% | 44% | 43% | 39% | 42% |
| EBT Margin | 34% | 32% | 34% | 36% | 33% | 33% | 29% | 32% |
| Net Profit Margin | 25% | 24% | 25% | 28% | 43% | 25% | 22% | 24% |
| Return on Equity | 22% | 25% | 28% | 28% | 50% | 28% | 25% | 28% |
| Return on Capital Employed | 21% | 24% | 27% | 27% | 48% | 27% | 24% | 27% |
| Return on Asset | 18% | 20% | 23% | 23% | 40% | 23% | 20% | 23% |
| Inventory Days | 71 | 61 | 56 | 70 | 70 | 66 | 66 | 66 |
| Receivable Days | 17 | 14 | 14 | 20 | 21 | 17 | 17 | 17 |
| Payable Days | 30 | 25 | 22 | 24 | 21 | 24 | 24 | 24 |
| Current Ratio | 3.3 | 2.8 | 2.9 | 3.0 | 3.1 | 3.2 | 3.4 | 3.7 |
| Quick Ratio | 2.3 | 1.9 | 2.0 | 2.0 | 2.0 | 2.2 | 2.4 | 2.6 |
| Cash Ratio | 0.4 | 0.4 | 0.4 | 0.5 | 0.3 | 0.3 | 0.3 | 0.2 |
| Debt To Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings Per Share | 10.9 | 12.6 | 15.6 | 16.6 | 28.0 | 17.2 | 16.0 | 19.4 |
| Earnings Yield% | 5% | 5% | 4% | 4% | 7% | 5% | 4% | 4% |
| Dividend Yield% | 7% | 5% | 3% | 4% | 3% | 4% | 3% | 3% |
| Book Value Per Share | 49 | 51 | 56 | 60 | 56 | 60 | 64 | 69 |
| P/E | 19.0 | 18.9 | 23.0 | 24.2 | 14.6 | 18.4 | 24.2 | 24.4 |
| P/S | 4.8 | 4.5 | 5.8 | 6.8 | 6.3 | 4.6 | 5.2 | 5.9 |
| P/B | 4.2 | 4.7 | 6.4 | 6.7 | 7.3 | 5.2 | 6.0 | 6.9 |

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