

## Near Term Tax Hike Challenges; Rating Revised to HOLD

### Changes in Estimates

**FY26E/FY27E:** Revenue: -2%/-4%; EBITDA: -5%/-10%; PAT: -4%/-10%

### Recommendation Rationale

- India Cigarette Tax Overhaul: Near-Term Margin and Volume Headwinds:** The Government of India has notified a new tobacco tax structure effective 1<sup>st</sup> February 2026, replacing the earlier 28% GST plus compensation cess regime with 40% GST and a higher excise duty, while NCCD remains unchanged. While the exact impact under new tax structure is still evolving, the higher levy is likely to force companies such as ITC and their peers to raise prices, which could dampen sales volumes in near term, leading to potential demand softness. On the other hand, if the price hikes are delayed, companies could face pressure on operating margins.
- Price Hikes and Erosion of Premium Product Mix:** ITC will need to implement an immediate portfolio-level price hike merely to maintain its current net realisation per stick. This is expected to disrupt its product mix, where the company had been benefiting from a recent period of tax stability. As prices increase, consumers are likely to downtrade from premium variants, such as King Size, to cheaper and shorter formats to manage costs, which would materially dilute ITC's overall margins.
- Surge in Market Competition:** The unprecedented tax hike brings to an end a five-year period of relative stability during which the legal cigarette market had regained share, leading to market contraction. With legal prices now poised to rise sharply, the price arbitrage between tax-paid and smuggled brands is set to widen significantly. This widening gap is expected to drive meaningful volume migration towards other brands, potentially reversing several years of gains achieved by organised players such as ITC.
- Cigarette Volume to Get Impacted:** Cigarette volumes are expected to be impacted in the near term due to higher taxes, with cigarettes contributing ~48%-50% of total revenue. We believe it will be challenging for the company to mitigate the tax impact and protect overall profitability. The FMCG portfolio has seen an improvement in demand momentum and is positioned for a recovery in the coming quarters. Government budgetary measures, GST rate reductions (except sin goods), an expanding outlet network, localisation initiatives, and a continued focus on premiumisation are expected to further support growth in the coming years.

### Sector Outlook: Positive

**Company Outlook & Guidance:** Considering the recent tax hikes in cigarette business and near-term headwind in the industry, we cut the margin estimates for FY26/FY27 but remain positive on medium to long-term growth.

**Current Valuation:** 22x Sep'27 EPS (Earlier Valuation: 25x Sep'27 EPS ).

**Current TP:** Rs 380/share (Earlier TP: Rs 480/share).

**Recommendation:** we revise our rating to **HOLD** on the stock with an upside potential of 8% from the CMP.

(CMP as of 02<sup>nd</sup> January 2026)

CMP (Rs)	350
Upside /Downside (%)	8%
High/Low (Rs)	472/347
Market cap (Cr)	4,38,138
Avg. daily vol. (6m) Shrs.'000	1,28,32,540
No. of shares (Cr)	1252

### Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	0.0	0.0	0.0
FII	39.9	38.0	37.4
MFs / UTI	12.9	13.8	14.3
Banks / FIs	7.9	7.9	7.9
Others	39.4	40.4	40.5

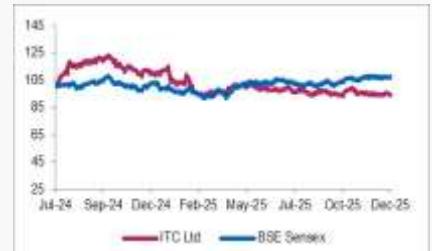
### Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
Net Sales	73,715	79,400	86,290
EBITDA	24,735	25,931	27,903
Net Profit	20,376	21,474	23,184
EPS (Rs.)	16.3	17.1	18.5
PER (x)	21.5	20.4	18.9
EV/EBITDA (x)	17.0	16.1	14.8
P/BV (x)	6.2	5.9	5.5
ROE (%)	28.8	28.9	28.9

### Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-2%	-4%
EBITDA	-5%	-10%
PAT	-4%	-10%

### Relative Performance



Source: Ace Equity, Axis Securities

### Results Gallery

[Q2FY26](#)  
[Q1FY26](#)  
[Q4FY25](#)  
[Q3FY25](#)  
[Q2FY25](#)

### Kuber Chauhan

*Research Analyst*  
*kuber.chauhan@axissecurities.in*

### Abhishek Bhalotia

*Research Associate*  
*abhishek.bhalotia@axissecurities.in*

**Change in Estimates**

	Old		New		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	74,981	82,401	73,715	79,400	-2%	-4%
EBITDA	26,001	28,931	24,735	25,931	-5%	-10%
PAT	21,329	23,731	20,376	21,474	-4%	-10%
EPS	17.0	18.9	16.3	17.1	-4%	-10%

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

				(Rs Cr)
<b>Y/E March</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Net sales	68,552	73,715	79,400	86,290
Growth, %	11	8	8	9
Other operating income	772	849	942	1,046
Total income	69,324	74,563	80,343	87,336
Raw material expenses	(31,736)	(34,909)	(37,702)	(40,718)
Employee expenses	(3,417)	(3,758)	(4,209)	(4,715)
Other Operating Expenses	(10,146)	(11,161)	(12,500)	(14,000)
<b>EBITDA (Core)</b>	<b>24,025</b>	<b>24,735</b>	<b>25,931</b>	<b>27,903</b>
Growth, %	2	3	5	8
Margin, %	35	34	33	32
Depreciation	(1,442)	(1,417)	(1,534)	(1,651)
<b>EBIT</b>	<b>22,583</b>	<b>23,317</b>	<b>24,397</b>	<b>26,251</b>
Growth, %	2	3	5	8
Margin, %	33	32	31	30
Interest paid	(36)	(37)	(37)	(37)
Other Income	3,454	3,800	4,180	4,598
Non-recurring Items	528	-	-	-
<b>Pre-tax profit</b>	<b>26,529</b>	<b>27,080</b>	<b>28,539</b>	<b>30,812</b>
Tax provided	(6,437)	(6,704)	(7,065)	(7,628)
<b>Profit after tax</b>	<b>20,092</b>	<b>20,376</b>	<b>21,474</b>	<b>23,184</b>
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,251	1,252	1,252	1,252
Wtd avg shares (Cr)	1,251	1,252	1,252	1,252

Source: Company, Axis Securities

### Balance Sheet

				(Rs Cr)
<b>Y/E March</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Cash & bank	3,184	3,775	5,472	8,746
Marketable securities at cost	15,286	15,286	15,286	15,286
Debtors	3,911	4,205	4,530	4,923
Inventory	15,061	16,195	17,444	18,958
Loans & advances	9	9	9	9
Other current assets	2,305	2,305	2,305	2,305
Total current assets	39,756	41,775	45,046	50,226
Investments	20,701	20,701	20,701	20,701
Gross fixed assets	30,774	33,374	35,974	38,574
Less: Depreciation	(10,786)	(12,203)	(13,737)	(15,389)
Add: Capital WIP	1,071	1,071	1,071	1,071
Net fixed assets	21,059	22,242	23,307	24,256
Non-current assets	2,493	2,493	2,493	2,493
<b>Total assets</b>	<b>84,009</b>	<b>87,211</b>	<b>91,547</b>	<b>97,677</b>
Current liabilities	12,094	12,436	12,812	13,268
Provisions	1,253	1,270	1,289	1,311
Total current liabilities	13,347	13,706	14,101	14,579
Non-current liabilities	2,762	2,762	2,762	2,762
Total liabilities	16,109	16,468	16,863	17,341
Paid-up capital	1,251	1,251	1,251	1,251
Reserves & surplus	66,649	69,492	73,433	79,084
Shareholders' equity	67,900	70,744	74,685	80,336
<b>Total equity &amp; liabilities</b>	<b>84,009</b>	<b>87,211</b>	<b>91,547</b>	<b>97,677</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

<b>Y/E March</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Pre-tax profit	26,529	27,080	28,539	30,812
Depreciation	1,442	1,417	1,534	1,651
Chg in working capital	(3,962)	(1,070)	(1,179)	(1,428)
Total tax paid	(5,697)	(6,704)	(7,065)	(7,628)
Other operating activities	-	-	-	-
<b>Cash flow from operating activities</b>	<b>18,313</b>	<b>20,723</b>	<b>21,830</b>	<b>23,407</b>
Capital expenditure	4,329	(2,600)	(2,600)	(2,600)
Chg in investments	2,121	-	-	-
Chg in marketable securities	(3,369)	-	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>3,081</b>	<b>(2,600)</b>	<b>(2,600)</b>	<b>(2,600)</b>
Free cash flow	21,393	18,123	19,230	20,807
Equity raised/(repaid)	(17,581)	50,579	3,941	5,651
Debt raised/(repaid)	(2)	-	-	-
Dividend (incl. tax)	(17,163)	(17,533)	(17,533)	(17,533)
<b>Cash flow from financing activities</b>	<b>(34,746)</b>	<b>33,046</b>	<b>(13,592)</b>	<b>(11,882)</b>
Net chg in cash	(13,352)	51,170	5,638	8,925
Opening cash balance	6,218	3,184	3,775	5,472
Closing cash balance	3,184	3,775	5,472	8,746

Source: Company, Axis Securities

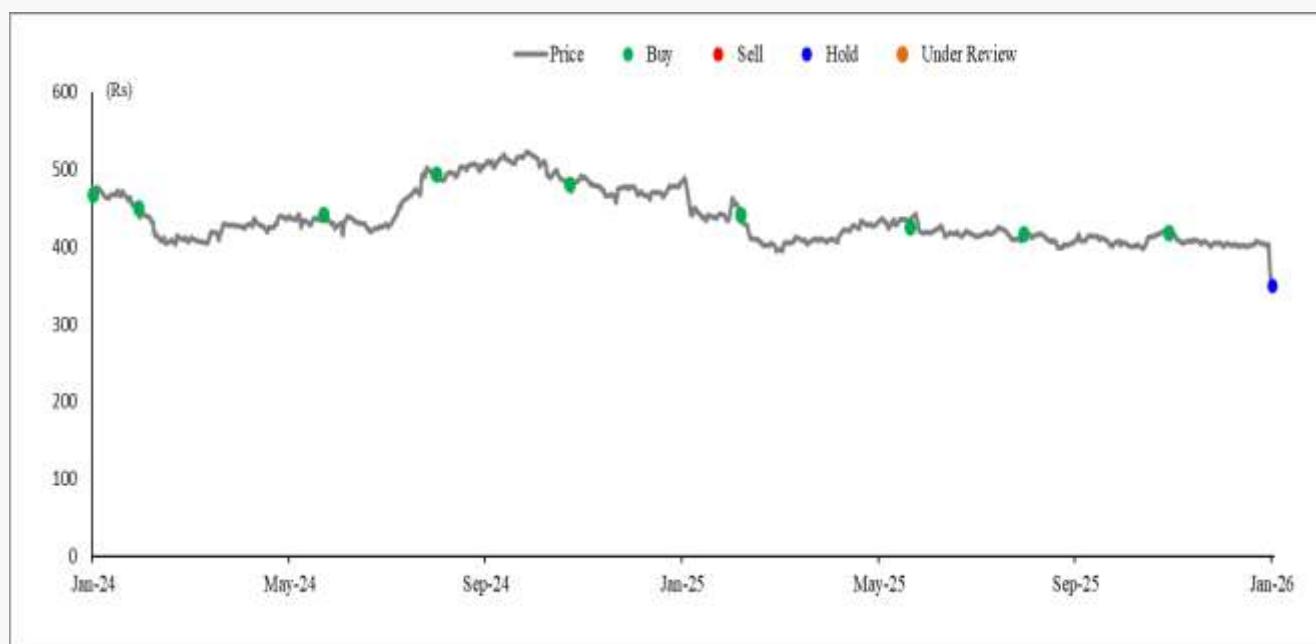
**Ratio Analysis**

(%)

	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
<b>Per Share data</b>				
EPS (INR)	15.6	16.3	17.1	18.5
Growth, %	(2.0)	4.1	5.4	8.0
Book NAV/share (INR)	54.3	56.5	59.6	64.1
FDEPS (INR)	15.6	16.3	17.1	18.5
CEPS (INR)	16.4	17.4	18.4	19.8
CFPS (INR)	12.6	13.5	14.1	15.0
DPS (INR)	13.7	14.0	14.0	14.0
<b>Return ratios</b>				
Return on assets (%)	23.5	23.8	24.1	24.5
Return on equity (%)	28.8	28.8	28.8	28.9
Return on capital employed (%)	27.6	28.2	28.4	28.8
<b>Turnover ratios</b>				
Asset turnover (x)	2.2	2.4	2.4	2.4
Sales/Total assets (x)	0.8	0.9	0.9	0.9
Sales/Net FA (x)	2.9	3.4	3.5	3.6
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	20.8	20.8	20.8	20.8
Inventory days	80.2	80.2	80.2	80.2
Payable days	36.2	35.4	34.9	34.7
Working capital days	43.5	45.8	48.0	50.3
<b>Liquidity ratios</b>				
Current ratio (x)	3.0	3.1	3.3	3.5
Quick ratio (x)	1.9	1.9	2.0	2.2
<b>Valuation</b>				
PER (x)	22.4	21.5	20.4	18.9
PEG (x) - y-o-y growth	(11.4)	5.3	3.8	2.4
Price/Book (x)	6.5	6.2	5.9	5.5
EV/Net sales (x)	6.1	5.7	5.3	4.8
EV/EBITDA (x)	17.5	17.0	16.1	14.8
EV/EBIT (x)	18.6	18.0	17.1	15.8

Source: Company, Axis Securities

## ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-24	BUY	540	Top Picks
30-Jan-24	BUY	500	Result Update
24-May-24	BUY	500	Result Update
02-Aug-24	BUY	550	Result Update
24-Oct-24	BUY	550	Result Update
07-Feb-25	BUY	510	Result Update
23-May-25	BUY	500	Result Update
04-Aug-25	BUY	490	Result Update
31-Oct-25	BUY	480	Result Update
05-Jan-26	HOLD	380	Company Update

Source: Axis Securities

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Compliance Officer Details: Name – Mr Rajiv Kejriwal, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in);

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

Note: Returns stated in the rating scale are our internal benchmark.