ITC LIMITED
INDEPENDENT EQUITY RESEARCH REPORT

Financial Analyst & Valuations Model | Durham University
9 September 2026

Investment Recommendation — BUY

Reference price: ₹263.50. Blended target: ₹372 (41% upside). DCF: ₹386; SOTP: ₹356; P/E cross-check: ₹373.

The core thesis is that ITC combines a high-margin, cash-generative cigarette franchise with an increasingly valuable FMCG portfolio, while the balance sheet provides substantial financial flexibility. The February 2026 cigarette-tax change is the principal near-term risk and prevents an aggressive tobacco-growth assumption.

Historical Financial Quality

FY24–FY26 financials were rebuilt from ITC's official disclosures. FY26 consolidated revenue from operations was ₹89,913 crore, EBITDA ₹26,272 crore and PAT attributable to owners ₹20,047 crore. ITC's FY26 filing explicitly notes that the cigarette tax change effective 1 February 2026 makes gross cigarette revenue and excise not strictly comparable with earlier periods.

Segment Forecast

FY26 segment revenue/PBIT were taken from ITC's consolidated segment filing: Cigarettes ₹40,601 crore / ₹22,246 crore; FMCG-Others ₹24,322 crore / ₹1,812 crore; Agri ₹20,787 crore / ₹1,584 crore; Paper ₹8,769 crore / ₹754 crore; Others ₹5,036 crore / ₹670 crore. Forecast growth is differentiated by business rather than applying a single group rate.

Working Capital & Balance Sheet

FY26 operating NWC is modelled at approximately ₹10,373 crore, based on reported inventory, receivables and payables. Forecast NWC scales with revenue. The balance sheet retains a strong net-cash position, supporting dividends and reducing financial risk.

DCF

A 9.0% WACC and 4.5% terminal growth produce enterprise value of approximately ₹462,546 crore and equity value of ₹483,146 crore, or ₹386/share. The model includes WACC/terminal-growth sensitivity in Excel.

FCFE & Dividend

FY26 total dividend was ₹14.50/share, a 5.5% yield at the reference price. The base case assumes DPS grows from ₹15.25 in FY27E to ₹19.25 in FY31E. A dividend-discount cross-check gives approximately ₹357/share, but is treated as secondary because the terminal growth assumption dominates the output.

SOTP & Trading Comparables

SOTP applies differentiated FY27E PBIT multiples to the operating segments and separately values ITC's 39.85% ITC Hotels stake at approximately ₹13,096 crore. SOTP value is ₹356/share. A conservative 22x FY27E P/E cross-check gives ₹373/share. The blended target is ₹372.

RBI Repo-Rate Regression

The macro analysis uses 65 monthly observations from April 2021 through September 2026. ITC monthly returns are regressed on monthly changes in the RBI repo rate and NIFTY 50 monthly returns. R^2 is 0.356. The repo-rate coefficient is 0.107 (robust SE 0.027); NIFTY beta is 0.94 (robust SE 0.15).

The positive repo coefficient is counter-intuitive. It should be interpreted as a sample correlation rather than a causal monetary-policy effect. The exercise is valuable because it demonstrates how macro variables can be integrated into equity analysis while controlling for the market.

Key Risks

- Cigarette taxation and illicit-trade risk
- FMCG margin and execution risk
- Commodity inflation in edible oils, packaging and wood
- Agri and paper cyclicality
- High sensitivity of DCF value to WACC and terminal growth
- Historical comparability issues from the Hotels demerger and Sresta/Wimco amalgamations

Final Thesis

BUY. The blended valuation of ₹372 implies approximately 41% upside. The thesis is not dependent on rapid cigarette growth; instead, it assumes durable cigarette cash flows, sustained FMCG-Others growth and modest margin recovery. A HOLD would become appropriate if cigarette volumes deteriorate materially, FMCG margins fail to recover, or the share price rises into the upper end of the valuation sensitivity range.

Sources

- ITC FY2026 consolidated financial results and segment filing
- ITC FY2024 Report & Accounts
- ITC Q1 FY2027 results
- Reserve Bank of India policy-rate publications
- Digrin ITC.NS monthly adjusted prices
- Returnsview NIFTY 50 monthly returns
- StockAnalysis / S&P Global ITC Hotels market-cap data

Academic project only; not investment advice. Analyst forecast assumptions and valuation multiples should be refreshed when new results are released.