

Hotel biz demerger to enhance shareholders value...

About the stock: ITC is diversified consumption play with presence in businesses such as cigarettes, FMCG, hotels, Agri and Paperboard, Paper & Packaging (PPP) in India.

- It is market leader in the domestic cigarette and PPP business, while it is 2nd largest player in hotel space with room inventory of ~13,000 rooms.
- Its strategy hinges towards utilising funds generated from cash cow cigarette business in improving the growth of FMCG and other businesses.
- The company completed demerger of its hotel business, which will be listed on bourses soon enhancing shareholders value with better growth visibility.

Investment Rationale:

- **Demerger of hotel business** – ITC's hotel business got demerged effective from 1st January 2025. As per the demerger scheme, eligible shareholders will receive one share of ITC Hotels for every 10 shares hold in ITC (effective record date 6th January 2025). Post the demerger, ITC will have 40% stake while remaining 60% will be held by ITC's shareholders (post demerger equity capital – Rs208crore). ITC Hotels are likely to be listed on the stock exchange in the coming months (likely listing in February,2025).
- **Its a win-win for ITC's shareholders** – Demerged hotel business will continue to perceive asset right strategy to achieve the next league of growth in the company (revenues and EBIDTA to grow at CAGR of 14% and 18% over FY24-27E). ITC will provide institutional support in the form of brand, governance and access to synergies. Strong debt free balance sheet and cash flows will help business to raise capital for the growth in the coming years. On the other hand, return profile of ITC (excluding the hotel business) will improve substantially post the demerger. Favourable cross-synergies will be created for FMCG business (including food and personal care). Structure also provides opportunity to exit from the hotel business if it is not part of respective investment strategy.

Rating and Target price

- With favourable demand-supply scenario, ITC's hotel business is expected to perform well in the coming years backed by asset-light growth strategy. Based on revenue and EBIDTA growth assumption, we derived a potential price target of Rs195 for ITC Hotels, providing an upside of 15-30% depending on the expected listing price of Rs150-170.
- Post demerger ITC's stock price could get adjusted by Rs12-15/share. With focus on driving core, the earning and return profile of ITC will improve in long run. We recommend Buy on ITC with a target price of Rs555.



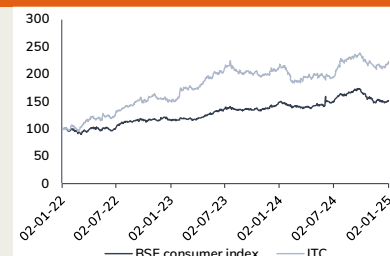
Particulars

Particular	Amount
Market Capitalisation (Rs crore)	486581
Debt (FY24) - Rs crore	2081
Cash (FY24) - Rs crore	18135
EV (Rs crore)	470527
52 week H/L (Rs)	529 / 399
Equity capital (Rs crore)	1250.9
Face value (Rs)	1

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	0.0	0.0	0.0	0.0
FII	43.3	41.0	40.5	40.5
DII	42.0	43.8	44.0	44.6
Others	14.8	15.3	15.5	14.9

Price Chart



Key risks

- Any substantial increase in tax rate on cigarette by government in the upcoming budget.
- Persistent slowdown in the urban demand to affect the FMCG business performance in the near term.

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Key Financial Summary

Key Financials (Rs Crore)	FY22	FY23	FY24	3 year CAGR (FY22-25E)	FY25E	FY26E	FY27E	2 year CAGR (FY25-27E)
Revenues	56341.3	66043.3	65440.8	7.9	70786.4	77830.8	86758.0	10.7
EBIDTA	18933.7	23945.5	24478.6	11.2	26053.4	29230.7	33038.2	12.6
EBIDTA Margins(%)	33.6	36.3	37.4		36.8	37.6	38.1	
Adjusted PAT	15057.8	18699.7	20429.8	11.5	20874.4	23239.1	26105.6	11.8
EPS (Rs.)	12.2	15.1	16.4		16.7	18.6	20.9	
PE (x)	39.6	31.8	29.2		28.6	25.7	22.9	
EV to EBIDTA (x)	30.5	24.1	23.7		22.3	19.9	17.6	
Price to book (x)	9.8	9.0	8.5		8.0	7.5	6.9	
RoE (%)	25.0	29.1	29.2		28.1	29.4	30.5	
RoCE (%)	27.0	32.6	30.8		30.9	32.7	34.4	

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