ITC Ltd.– Recommended Stock - Book Losses (SELL)

ITC Ltd. – Downgrade to SELL | Book Losses Amid Adverse Excise Duty Changes

Dear Investors,

We had recommended ITC Ltd. as a BUY on 10 June 2025 with a 12-month investment horizon and a target price of 490, implying an upside potential of ~15%. **However, in light of recent regulatory developments and their material implications for the company's core profitability drivers, we have revised our stance to SELL and advise investors to book losses at the current market price (CMP) of ~342, which is ~19.5% below our recommended entry level.**

The Government of India has revived and significantly expanded the central excise duty regime on cigarettes and other tobacco products under the Central Excise (Amendment) Act, 2025. The revised structure introduces substantially higher specified duties across cigarette categories, including non-filter cigarettes (≤65mm at INR 2,050/'000 sticks; >65–70mm at INR 3,600/'000 sticks), filter cigarettes (INR 2,100/'000 and INR 4,000/'000 sticks respectively) and "other" cigarettes at INR 8,500/'000 sticks. These rates are 29–43% higher than the prevailing levels. This sharp increase is expected to mechanically widen the price gap between tax-paid cigarettes and illicit products, materially elevating down-trading and substitution risks—particularly in the mid-price segments that constitute a significant portion of ITC's cigarette volumes and are more price-elastic.

Cigarettes account for ~33% of ITC's consolidated revenues but contribute a disproportionate ~83% of EBITDA, underscoring the segment's criticality to overall profitability. **We expect the new excise regime to pressure volumes and compress operating margins over the medium term, notwithstanding some offset from lower leaf tobacco prices and selective price hikes. Importantly, the increase in overall cigarette taxation from ~50% to ~61%—still below the WHO-recommended 75%—opens the door for further rate tinkering by the government, adding to regulatory overhang and earnings visibility risks.** In this context, we believe the risk-reward has turned unfavourable, warranting an exit at current levels.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team