



Does <26% BAT shareholding indicate strategic shift?

BAT (British American Tobacco) has cut its shareholding in ITC from 25.5% to 22.9% last week. BAT was the largest shareholder (Non promoter) in ITC and was known to be keen on control of this crown jewel till the mid-nineties. BAT cut its stake in March 2024 by 3.6% and general perception was that BAT will retain >25% stake to have a say in specific resolutions. BAT has been on record with the intent of selling its stake in recently demerged ITC Hotels (15.4% stake valued at Rs 68bn), however sales of ~2.5% stake in ITC Ltd have come as a surprise, as it has brought its stake to below 26%.

We see little impact of this event on the business operations of ITC, which have been working as a professionally run organization for many decades. ITC controls the entire supply chain, technology, brands and distribution unlike many MNC backed players who have significant dependence on the policies of its parent. India has examples of L&T, NSE, BSE and all leading banks like ICICI, HDFC, Axis etc. which don't have any promoters and are run by professional boards. However, the reduction in stake below 26% has increased the probability of more stake sales by BAT and has impacted sentiments. We see this as a near-term uncertainty without any bearing on long-term business or return expectations.

BAT has little direct involvement in cigarette business

BAT has been more of a passive shareholder for nearly 3 decades. Ban on FDI in tobacco, E- Cigarettes and Nicotine based non-combustible products might have been one of the reasons for waning interest of BAT in the Indian entity, in our view. ITC is the market leader in India with ~77% share in cigarettes business. ITC has reported a steady 4%+ volume growth in FY25 (5% in 4Q25).

- ITC owns all the leading cigarette brands like Wills, Classic, Golds Flake, Scissors etc. The only brand from BAT, which is sold in India is Bensen and Hedges which does not make any tangible contribution to business.
- ITC has its own R&D and is not dependent on BAT for innovations in products and manufacturing. As developed markets are moving towards smokeless and non-combustible cigarettes, BAT has limited R&D focus on these cigarettes.
- ITC has significant experience in leaf tobacco procurement, processing and has experienced team and tie ups with farmers and on ground presence, which is purely led by ITC.
- ITC runs integrated operations and makes its own processed leaf, filter rods, cigarette paper and cigarette packaging, which makes it the only integrated domestic manufacturer of cigarettes. ITC remains the only manufacturer of filter rods and cigarette paper in the country.
- ITC does sell and provides processed leaf tobacco to some of BAT affiliates, which is due to strong backward linkages created by ITC over the years.

We believe the reduction of stake by BAT to less than 26% will not have any business impact on the cigarette business of ITC given its control over brands, distribution, manufacturing, R&D and backward integration.

Non-Cigarette businesses do not depend upon BAT

Over the years ITC has undertaken significant business diversification away from cigarette business. It is reminiscent of the eighties and nineties when most global cigarette companies were facing big penalties due to multiple class action suits in the USA and Europe which forced leading cigarette companies to diversify.

Philip Morris acquired Kraft Foods and General Foods. It also acquired Miller and SAB, two Beer companies to create SAB miller. Over time shares were given to its shareholders and it diversified into smokeless tobacco and nicotine derivative products.

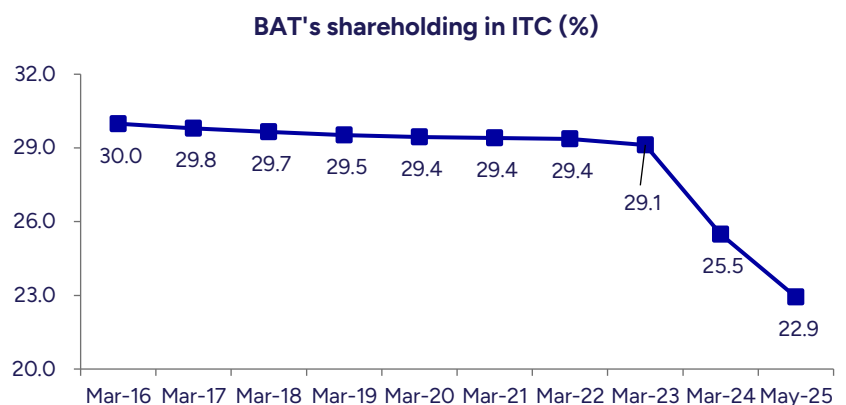
BAT had diversified into Paper, Food, retailing and Insurance, before it gradually separated those and focused on cigarettes and allied businesses over time.

ITC had stakes in Foods (ITC Agrotech), Paper (ITC Bhadrachalam), Hotels (ITC Hotels) and financial services. Over time ITC merged Hotels and Paper into ITC and gradually exited ITC Agrotech Foods. However, it has expanded significantly in non-cigarette businesses over the past 20 years. BAT has been amongst largest shareholders; however, this has not deterred the Indian company to diversify, invest and grow the high growth businesses.

- **ITC's paperboard business** is the largest paper and paperboard manufacturer in India. Its recent acquisition of century paper will further consolidate its position in the industry. The business had a five-year EBIT average of Rs15bn with a peak of Rs22.9bn in FY23.
- **FMCG** – ITC has emerged as the fastest growing consumer business with sales growing from Rs1bn in FY02 to Rs220bn in FY25. It has also generated an EBIDTA of Rs21.8bn. ITC has created strong market position in Biscuits, branded Atta, Potato Chips, Instant Noodles, Confectionary, Spices, Personal care, matchboxes and stationery. It has brands like Sunfeast, Aashirvaad, Bingo, Eastern, Savlon, Fiamma, Papercraft and Homelights.
- **Agri** – Agri business of ITC has two components 1) export of Agri commodities and 2) leaf tobacco exports which is highly profitable with 20% EBIDTA margins. ITC exports some leaf tobacco to affiliates of BAT, but the rest of the business is totally driven by ITC only.
- **IT Services** – ITC's subsidiary ITC Infotech has sales of Rs42bn and EBIDTA of Rs7.87bn, all driven, led by ITC only. Similarly, ITC hotels, in which it has 40% stake now has been driven by ITC's Indian leadership only.

So, if we look across businesses, none of these have any operational dependence on BAT in terms of critical technology, marketing or operational working.

Exhibit 1: Reduction in BAT's stake in ITC over the years



Source: Company, PL

Exhibit 2: Cigarettes and FMCG to drive growth over FY25-27

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales (Rs m)						
Cigarettes	2,00,748	2,41,527	2,58,633	2,79,109	2,95,683	3,11,287
FMCG	1,59,648	1,90,815	2,09,225	2,19,865	2,35,259	2,60,137
Agri	1,61,961	1,81,723	1,57,918	1,97,510	2,16,752	2,35,306
Paper and Paperboard	76,416	90,814	83,444	84,207	87,544	92,884
Sales Growth (%)						
Cigarettes	15.4	20.3	7.1	7.9	5.9	5.3
FMCG	8.5	19.5	9.6	5.1	7.0	10.6
Agri	28.7	12.2	(13.1)	25.1	9.7	8.6
Paper and Paperboard	36.0	18.8	(8.1)	0.9	4.0	6.1
EBIT (Rs m)						
Cigarettes	1,48,691	1,79,271	1,90,892	2,00,249	2,13,258	2,27,240
FMCG	9,232	13,742	17,786	15,797	19,291	23,412
Agri	10,312	13,277	12,544	14,780	17,340	19,295
Paper and Paperboard	17,000	22,940	13,776	9,115	10,505	14,861
EBIT Margin (%)						
Cigarettes	63.4	63.6	62.4	61.4	61.8	62.5
FMCG	5.8	7.2	8.5	7.2	8.2	9.0
Agri	6.4	7.3	7.9	7.5	8.0	8.2
Paper and Paperboard	22.2	25.3	16.5	10.8	12.0	16.0
EBIT Growth (%)						
Cigarettes	16.9	20.6	6.5	4.9	6.5	6.6
FMCG	10.9	48.8	29.4	-11.2	22.1	21.4
Agri	25.6	28.8	-5.5	17.8	17.3	11.3
Paper and Paperboard	54.7	34.9	-39.9	-33.8	15.3	41.5

Source: Company, PL

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,142	2,303
2	Avenue Supermarts	Hold	3,975	4,059
3	Britannia Industries	BUY	5,941	5,613
4	Colgate Palmolive	Hold	2,654	2,487
5	Dabur India	Hold	501	482
6	Emami	Accumulate	697	636
7	Hindustan Unilever	Accumulate	2,601	2,325
8	ITC	BUY	538	426
9	Jubilant FoodWorks	Hold	689	693
10	Kansai Nerolac Paints	Accumulate	284	255
11	Marico	Accumulate	718	699
12	Metro Brands	Hold	1,195	1,211
13	Mold-tek Packaging	Accumulate	636	565
14	Nestle India	Accumulate	2,559	2,433
15	Pidilite Industries	BUY	3,428	2,980
16	Restaurant Brands Asia	Accumulate	89	82
17	Titan Company	BUY	3,752	3,369
18	Westlife Foodworld	Hold	738	700

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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