

ITC LIMITED



ITC is one of India's most diversified consumer goods company having increasingly reduced its dependence on its core cigarette business.

Background

ITC was incorporated in 1910 under the name of Imperial Tobacco Company of India Limited (later changed to ITC Limited in 1974).

It was initially in the cigarette and tobacco business and later diversified into multiple businesses including hotels, paperboards and speciality papers, packaging, agri-business, packaged foods and confectionery, branded apparel, greeting cards and other FMCG products.

The company entered the hospitality business in 1975. In 1979 it entered the paperboards business by promoting ITC Bhadrachalam Paperboards Limited, which was later amalgamated with ITC. In 1992, leveraging its agri-sourcing competency, ITC set up the International Business Division for export of agri-commodities. More new lines of businesses have followed since 2001 in the space of FMCG. The company's products are manufactured at multiple production facilities across the country. Certain

initiatives of the company such as the ITC e-Choupal, ITC Choupal Saagar and the ITC social farm forestry programme have been recognised through internationally acclaimed awards for their impact on rural life.

ITC's diversified status originates from its corporate strategy aimed at creating multiple drivers of growth, anchored on its core competencies of strong distribution reach, superior brand-building capabilities, effective supply chain management and service skills in hoteliering. Its distribution reach is one of the largest in India – the FMCG business has a retail network over 2 million retailers in the country, ranging from premium outlets in the metros to small shops in the interiors of rural India.



Currently British American Tobacco Company (UK) controls 32 per cent equity stake in ITC. Domestic financial institutions hold 35 per cent share and foreign institutions have a 15 per cent share. Indian public and corporate bodies hold the balance 13 per cent stake.

Company	Products	Established	Founder	Distribution	Production plants
ITC	Cigarettes, foods, apparel, stationery, hotels, paper	1910	British American Tobacco	India, Americas, Europe, Middle East, Asia Pacific, Africa	India

Product	Location of Manufacturing facility
Cigarettes	Bangalore (Karnataka), Kolkata (West Bengal), Munger (Bihar), Saharanpur (Uttar Pradesh)
Green Leaf Threshing Plants	Anaparti, Chirala (Andhra Pradesh)
Packaging & Printing Factories	Chennai (Tamil Nadu), Munger (Bihar)
Paper & Paperboard Mills	Bollaram (Andhra Pradesh), Coimbatore (Tamil Nadu), Sarapaka (Andhra Pradesh), Tribeni (West Bengal)
Rural Services Centre	10 in Madhya Pradesh, Uttar Pradesh & Maharashtra
Lifestyle Retailing- Design & Technology centre	Gurgaon (Haryana)

Source: Company Annual Report

Products and brands

FMCG Products: ITC is the market leader in cigarettes in India with a wide range of strong brands. 3 of its brands (Gold Flake, Wills and Scissors) feature amongst the top 5 FMCG brands in the country. The Lifestyle Retailing business of ITC was established in the year 2000 through the Wills Lifestyle chain of exclusive speciality stores that sell apparel and accessories under the Wills trademark. ITC also sells men's range of apparel under the brand name John Players through exclusive brand outlets as well as more than 1500 multi-brand outlets. In 2001, ITC made its entry into branded packaged foods business and rapidly expanded the portfolio to include confectionery, staples and snack foods segments. The company's products are rapidly gaining consumer franchise and have established strong market standing in this short period of time.



FMCG products	Brands
Cigarette	<ul style="list-style-type: none"> • Domestic market - India Kings, Gold Flake, Navy Cut, Scissors, Capstan, Berkeley and Bristol • USA - Checkers, Hi-Val, Royale Classic and Gold Crest • Middle East - Royale Classic, Gold Cut and Scissors Filter King
Ready to eat foods	<ul style="list-style-type: none"> • Kitchens of India
Staples	<ul style="list-style-type: none"> • Aashirvaad
Confectionery	<ul style="list-style-type: none"> • Mint-O, Candyman
Snack foods	<ul style="list-style-type: none"> • Sunfeast
Lifestyle retailing	<ul style="list-style-type: none"> • Relaxed Wear - Wills Sport • Formal Wear - Wills Classic • Evening Wear and Designer Accessories - Wills Clublife • Branded men's apparel - John Players
Greeting cards	<ul style="list-style-type: none"> • English cards - Expressions • Vernacular cards - Matrubhasha
Notebooks	<ul style="list-style-type: none"> • School notebooks - Classmate • College and office notebooks - Paperkraft
Safety matches	<ul style="list-style-type: none"> • iKno, Mangal Deep, VaxLit, Delite, Aim
Incense sticks	<ul style="list-style-type: none"> • Mangaldeep

Source: Company website, IMAcS analysis

ITC has leveraged its paperboard and packaging business to market branded stationery and greeting cards. The company is also into marketing of safety matches and incense sticks, sourced from the small-scale and cottage sector. The range of FMCG products leverage its core strengths in marketing and distribution, brand building, supply chain management and paperboard and packaging.

Hotels: ITC has one of India's finest hotel chains under the brand name ITC-Welcomgroup with 60

hotels and approximately 5200 rooms in India. These include heritage palaces, havelis and resorts under the sub-brand WelcomHeritage, full service budget hotels under the brand name Fortune, super deluxe 'ITC Hotels' and five star hotels under the brand 'WelcomHotel'. Currently 10 of the ITC-Welcomgroup hotels are marketed world-wide by the Sheraton Corporation, which is part of Starwood Hotels & Resorts, the well-known global hospitality chain.





Paperboards and packaging: The products under the paperboards and speciality papers business include coated and uncoated boards, writing and printing paper, kraft paper and speciality paper. The company is the country's largest converter of paperboard into packaging for a variety of industries.

Agri-business: The company focuses on exports of soyameal, rice (basmati and non basmati), , pulses, coffee, black pepper, edible nuts, marine products (shrimps and prawns), processed fruits etc. Agri exports contributes over 60 per cent of ITC's total foreign exchange earnings. Seafood products are exported under well-known brands Gold Ribbon, Blue Ribbon, Aqua Kings, Aqua Bay, Aqua Feast and Peninsular. The business also sources high quality wheat for the Company's branded packaged foods business leveraging the e-choupal network which currently comprises around 6300 installations reaching out to over 3.5 million farmers. ITC pioneered the cultivation of cigarette leaf tobaccos in India and is currently the largest buyer, exporter and processor of Indian leaf tobacco.

Rural hypermarkets: ITC has launched its rural hypermarkets in the year 2004 under the name

Choupal Saagar. It creates a platform for farmers to sell their produce as well as buy quality products for their farm and household consumption. It provides farmers additional services under one roof like soil testing, banking, insurance, medical facilities and restaurant. Going forward, these malls would serve as part of the core infrastructure to support ITC's rural distribution strategy. 10 'Choupal Saagars' are now operational in the 3 states of Madhya Pradesh, Maharashtra and Uttar Pradesh while 9 more are in an advanced stage of construction.

Financial analysis

ITC has witnessed continued growth momentum ensured by the sustained leadership in the cigarettes business and rapid ramp-up of non-cigarettes portfolio. Double-digit growth has been reported for the company on account of new product launches and entry into new categories.



The paper business, the second largest contributor to revenues after cigarettes has been scaled up significantly in the past through organic as well as inorganic initiatives. The company's revenues have clocked a CAGR of 10 per cent while net profits have grown remarkably by nearly 20 per cent in the period between 1999 and 2005. The company has maintained a low gearing and has shown a healthy return on the capital employed.

The company has taken the lead in voluntarily reporting progress against its growing contribution to the Triple Bottom Line. In February 2005, the company released its first comprehensive 'Sustainability Report', which represents its attempt to strike a harmonious balance between the needs of the economy, ecology and society.

ITC's contribution in making "Made in India" global

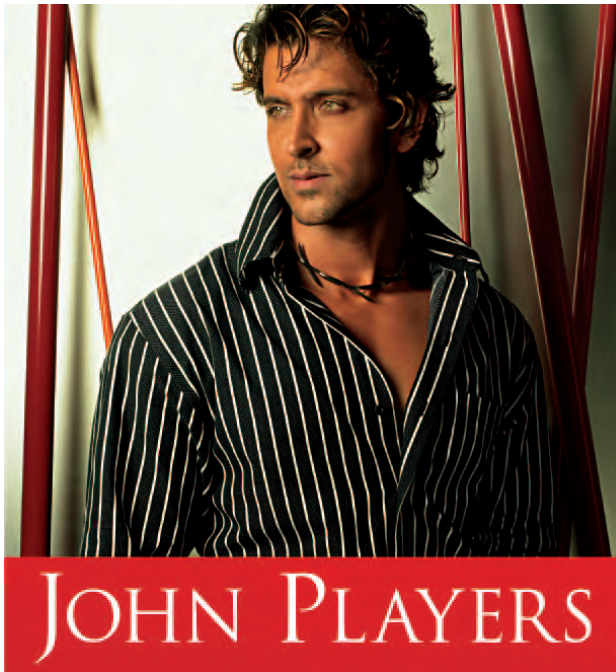
ITC has leveraged its well-diversified position in its global initiatives also. Its advent into internationalisation is led by a balanced initiative by the various products in the portfolio. Its products, ranging from FMCG to paper and packaging, have contributed significantly to India's foreign exchange

earnings (more than USD 2 billion in the last decade). The cigarette business has been expanded to competitive markets like the US and Middle East through its own brands. In foods, the company is building a presence in ready-to-eat Indian cuisine through a range of exotic recipes branded Kitchens of India, created by its chefs of the hotel business. The International Business Division ranks as one of the largest Indian exporter of agri-products with exports of over USD 150 million. Although one of the relatively younger business divisions of ITC, it has, in a short span established itself as a first-choice supply chain partner of several leading international customers like Coca Cola, Abudhabi Flour Mill and Mitsubishi who source agriculture commodities and food products from India.

ITC's Paperboards and Packaging division is the largest exporter of coated boards from India. The company exports nearly 20 per cent of the coated boards it produces. Clients for packaging include well-known companies like British American Tobacco, Surya Nepal Private Limited, VST Industries, GTC, UB Group, Shaw Wallace, Seagrams, Allied Domecq, Whyte & Mackay, Hindustan Lever, Tata Tetley and Nestle, Reckitt Benkiser India Limited, JK Helene Curtis.

ITC's globalisation in different businesses

Cigarettes	<ul style="list-style-type: none"> • Has launched its own brands in the US and Middle East • Largest company in Nepal
Foods & agri-products	<ul style="list-style-type: none"> • Packaged foods brand 'Kitchens of India' exported to US, Canada, UK and Switzerland • Branded sea foods exported to US, Europe and Japan • Supply chain partner of several leading international customers for agri products- Coke, Abudhabi Flour Mill, Mitsubishi • Supplies tobacco to customers in 37 countries
Paper & packaging	<ul style="list-style-type: none"> • Exports of coated boards to Malaysia, Sri Lanka, Bangladesh, Iran, Australia, UAE, Saudi Arabia, Singapore, UK, Italy, Netherlands and China • Exports of cigarette tissues and décor paper for laminates to Iran, Indonesia, Philippines, Nepal, Bhutan and Bangladesh • Supplies packaging for 15 billion cigarette sticks a year for the export market
Safety matches	<ul style="list-style-type: none"> • Export of premium brands of safety matches to Europe, Africa and the USA
Incense sticks	<ul style="list-style-type: none"> • Exported to US, Europe and south-east Asia



ITC is also the largest buyer, processor and exporter of cigarette tobaccos in India and has been the country's single largest integrated source of quality tobaccos for customers in 37 countries over the last six decades.

In addition to the above businesses, ITC has a presence in the IT industry through ITC Infotech India Limited, a wholly owned subsidiary, based in Bangalore (Karnataka). ITC Infotech offers in-depth domain knowledge in the areas of manufacturing, hospitality services, retail, FMCG, paper and packaging and commodities to its clients. Through its wholly owned software subsidiaries in the UK and US, ITC Infotech services multiple Fortune Class clients. These include Unilever, Abbey National, British American Tobacco, ClientLogic, DHL, etc.

Factors fuelling ITC's global initiatives

Strong backward integration linkages form the foundation for ITC's global infrastructure. The extensive backward linkages it has established with

the farmers for its FMCG business are an example of this. This networking with the farming community has enabled ITC to build a highly cost effective procurement system. ITC has made significant investments in web-enabling the Indian farmer. Christened e-Choupal, ITC's web plan for the farmer centres around providing Internet kiosks in villages. Farmers use this technology infrastructure to access on-line information from ITC's farmer-friendly websites. Data accessed by the farmers relate to the weather, crop conditions, best practices in farming, ruling international prices and a host of other related information. Currently, the e-Choupal websites provide information to farmers in Madhya Pradesh, Maharashtra and Rajasthan, coffee planters in Karnataka, aquaculturists in Andhra Pradesh and wheat farmers in Uttar Pradesh.

In the paper business, ITC's strong backward integration in the value chain and its technologically advanced plants for packaging and printing and paperboards and speciality papers enable it to export quality products at international prices. Its packaging and printing plants have been awarded the Greentech Environment award, CAPEXIL export award and World Star, Asia Star and India





Star awards for excellence in packaging.

Strong brands built over the years through heavy investments have resulted in a high degree of brand loyalty among consumers, not only in India but also in global markets. The company's production facilities have won numerous national and international awards for quality, productivity, safety and environment management systems, making its products acceptable to the international community.

ITC has prudently deployed the cash generated by its businesses to grow its stable of businesses thereby mitigating business concentration risk. It has demonstrated willingness to stay invested in its new businesses for longer duration of time. As a result, ITC today operates in a broader spectrum of products.

Future plans

The company intends to invest USD 3.2 billion over the next five to seven years across its different businesses. The investment plans aim at positioning each of the businesses in the ITC

portfolio as a leader in its respective market. Apart from capital expenditure for organic growth, the strategic investment plans include outlays towards acquisitions, both in India and abroad. Bulk of the investments would go towards upgradation of technology in the tobacco business, creating new production facilities for the foods and apparel businesses and expansion of the hotel chain in key locations. It would also go towards consolidation of the company's leadership position in the paperboards / paper business with the addition of an integrated pulp and paper facility. Investments are also planned for expansion of ITC's pioneering e-choupal rural sourcing / distribution network and setting up the rural hypermarket chain under the Choupal Saagar store brand. Already a 'water positive' corporation, the company became 'carbon positive' in 2005-06 and is making rapid strides towards achieving 'zero solid waste disposal' status.

Globalisation at a glance

- Contribution of more than US\$ 2 billion to India's exports in the last decade
- ITC's International Business Division is one of the largest Indian exporters of agri-products and is a preferred supply chain partner to companies like Coca Cola, Mitsubishi etc
- Markets its own brand of cigarettes in the US and Middle East
- Largest exporter of coated boards from India
- Largest exporter of cigarette tobaccos from India

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