

**Q 1. Express your views for adopting ITC for modernization of an organization.**

**Answer:-** This situation greatly hinders the digital transformation of organizations due to the characteristics of their IT infrastructure, which is usually a varied mix of applications written in different languages on multiple platforms. In addition, they are implicitly unsuitable for deployment in the cloud and often require a specific infrastructure.

Foreign exchange earnings will remain an area of focus, not only because it is a national priority, but also because it will enable ITC's businesses to test their competitiveness and prepare for the growing sophistication of the Indian market.

ITC also plans to realise full value from the real estate investments, taking advantage of the skills developed while growing the hotel business.

Further, your ITC's most valuable assets are its trademarks. These may not be separately valued in ITC's accounts, but remain the basis of future income streams. For many of ITC's customers, their only connection with ITC is through these trademarks.

Research has shown that these trademarks carry considerable goodwill which can be more effectively exploited by entry into new lines of business. It is with the exploration of this new opportunity in mind that we have placed the Special Resolution for your sanction today.

In respect of ITC's other businesses, it is the intention to induct world-class partners and thus reposition them for growth. This will also provide ITC the option to redeem its investments in these ventures in a responsible manner. In the first instance, this programme will cover ITC AgroTech, ITC Classic Finance and the Tribeni Tissues Division. ITC Global is already under judicial Management in Singapore, at the instance of the creditors of that company.

### **ECONOMIC POTENTIAL OF THE TOBACCO SECTOR**

It is not widely known that the tobacco industry makes an invaluable contribution to the national economy.

Over 26 million people are dependant for their livelihood on the tobacco industry. This includes a million small and marginal tobacco farmers, 5 million farm labour and 1.5 million retailers, not to mention a vast ancillary sector in goods and services.

The sector contributes over 10% of the excise collected by the Central Government, and about 4% of its tax revenue, even though it comprises a mere 0.3% of arable land.

Further, the sector contributes nearly 4% of the value of India's agri-exports. What is even more remarkable is that the economic potential of this sector is largely unrealised.

Cigarette tobaccos constitute just a third of the total tobacco crop in India, and cigarettes represent less than 20% of tobacco consumption in India. Yet this minority segment contributes 90% of Government revenues and exports from this sector.

Any conversion from traditional tobacco products to cigarettes will modernise and upgrade tobacco consumption in the country, sharply improve Government revenues and export prospects for Indian tobaccos. The modernisation of this sector will multiply Government revenues and contribute to strengthening the social infrastructure, which suffers from lack of funds.

It is worth highlighting that China generates Government revenues seven times that of India from its tobacco sector. This has been made possible by moderation in excise duties which are half that obtaining in India.

ITC is the market leader in the cigarette segment of the tobacco industry, and its brands occupy a leadership position in all categories. In recognition of a growing demand for international brands, ITC has entered into a licensing agreement within BAT for manufacturing and marketing two of its international trademarks in India. The agreement is awaiting Government approval. This initiative will also help to curb the growth of smuggled foreign cigarettes, which results in an estimated foreign exchange loss of Rs. 300 crores and an estimated excise loss of Rs. 200 crores. It is hoped that, over time, the entire value chain for international brands will shift to India, with a multiplier impact to be shared among Indian farmers, Indian suppliers, Indian labour, together with additional revenues for the Government, and in the process creating a largest surplus for you, shareholders.

## **TRAVEL AND TOURISM SECTOR**

When the country is targeting a GDP growth rate in excess of 7% per annum, the infrastructure to support this growth must also keep pace. By infrastructure, I refer not only to power, roads, ports and telecommunications but also to the tourism infrastructure that supports business and leisure travel. The economic

potential and the associated opportunity presented by this sector can be gauged by the following:

Travel and tourism is already the largest industry in the world, that earns over US\$ 3700 billion in revenues and continues to grow rapidly.

This sector provides the highest potential for generating employment per unit of investment and has a very large multiplier impact on the economy.

Moreover, this sector generates US\$ 3 billion in foreign exchange earnings for India, at a time when tourist arrivals in India are a fraction of their potential.

If India's share of world tourism grows from the current 0.3% to 1%, it will call for investments upwards of Rs. 20,000 crores in the accommodation sector alone, indicative of the size of the opportunity in this sector.

The market standing of the Welcomgroup chain, managed by ITC Hotels Ltd. provides a very promising opportunity for growth. ITC has focused the Welcomgroup chain to the up-market business and leisure segments, and is already the revenue leader in most locations where it operates. The association with Sheraton nurtured over the last 20 years has assisted in inducting state-of-the-art know-how and best practice in hoteliering, apart from providing a cost-effective access to their marketing and distribution network worldwide. This accumulated strength laces ITC in a unique position to exploit the growth opportunities in this sector.

Foreign exchange earnings constitute as much as 60% of the Welcomgroup chain's turnover and is therefore an important contributor to the national effort on foreign exchange earnings.

ITC's subsidiary, ITC Hotels, has charted out growth plans in the Heritage segment for up-market tourists, as well as in the mid-priced business and leisure travel segments.

To fully exploit the growth opportunities presented by this sector, future investments are planned both directly by ITC, as well as through ITC Hotels.

### **PACKAGING AND PAPERBOARD SECTORS**

ITC's Packaging & Printing Division is India's leading supplier to the cigarette and liquor industries, with a small nucleus focused on high value added food products.

This sector is expected to grow rapidly, in line with the growing sophistication of the Indian market, presenting an attractive opportunity. ITC plans to develop its packaging operations into a leadership position in the Asia-Pacific region.

ITC promoted ITC Bhadrachalam Paperboards Limited nearly 20 years ago. This Company has grown to acquire a strong presence in the paper board segment of the paper industry. The long-term growth prospects of the paper industry are significant given the low per capita consumption in India of a mere 4 kgs per annum compared to the world average of 55 kgs per annum. The growing sophistication of the consumer goods industry is expected to create an attractive market for international quality paperboard used for printed packaging.

ITC has supported the modernisation programme of ITC Bhadrachalam's mill which involves an outlay of Rs. 620 crores. A state-of-the-art paperboard machine is being installed together with captive power generating capacity. On successful completion of the project, it is expected that the mill will rank among the foremost mills in the world in its category and will be internationally competitive both in quality and cost.

In order to improve access to cost effective fibrous raw material, ITC Bhadrachalam is engaged in an extensive social and farm forestry programme in the command areas of the mill.

The world paper industry is currently going through a severe recession. Coupled with this, the dramatic reduction in import duties to 20% has intensified price competition in the Indian market. Although this will inevitably prolong the gestation of the new investment in the medium term, the long-term prospects of ITC Bhadrachalam look attractive. The merits of an international alliance for this sector are being examined.

### **INVESTIGATIONS RELATING TO EXPORT TRANSACTIONS**

During the course of the year, ITC has been at the centre of a highly publicised investigation by the Enforcement Directorate as set out in the Directors' Report.

Since then, five show cause notices have been served on the Company and on some of its past and present directors and managers. These relate to the export transactions of the Company's International Business Division with the Chitalia group of companies spanning a period of approximately 4/5 years. Our legal advisors are in the process of obtaining and studying the voluminous related documents. In due course, the Company will formulate its response based on

legal advice. Meanwhile, the investigation by the Directorate is continuing and ITC continues to extend its fullest co-operation in the matter.

### **COMPANY'S CONTRIBUTION TO THE ECONOMY**

Before I conclude, it is worth setting out in brief some of the salient aspects of ITC's contribution to the economy, and its relevance as a valued corporate citizen.

ITC earned US\$ 1100 million in foreign exchange during the past 5 years. This represents about 1% of India's export earnings, placing ITC among the country's leading exporters.

Cumulatively, over the last 5 financial years, ITC has created value addition of Rs. 14,793 crores. This value addition has been calculated by deducting from gross income, the net cost of goods and services purchased.

A staggering 84% of such value added by ITC amounting to Rs. 212,425 crores has been contributed to Government authorities at the central, state and local levels, making ITC the largest contributor by far to the Exchequer from the private sector, representing nearly 3% of the tax revenues of the Central Government.

In comparison to Government's share of ITC's value addition, the share of other stakeholders during this 5-year period is modest:

Rs. 454 crores, or just over 3% of ITC's value addition has been paid out as interest to lenders.

Rs. 470 crores i.e. another 3% has accrued to shareholders as dividends.

Rs. 693 crores, just under 5% of ITC's value addition, has been paid to employees.

Just Rs. 752 crores, again around 5%, has been retained by ITC to support future growth in ITC and its subsidiary / associate Companies.

The main concern of your Board is how to become internationally competitive, when as much as 84% of the value added by ITC accrues to Government in the form of various levies. This is obviously due to the very high incidence of excise in the cigarette industry. It is ITC's hope that the Government's declared policy of seeking higher tax revenues through an expanding tax rates will be extended to the cigarette industry as well.

Moderation in excise duties will place ITC, a premier Indian enterprise, in a better position to mobilise the benefits inherent in a larger scale of operation and enable it to compete more effectively in the global marketplace.

## **CONCLUSION**

Several million homes are part of the ITC family. This includes farmers/ farm labour, small retailers, over 2 lakh shareholders and depositors, nearly 15 million consumers and large numbers employed either directly or indirectly through the vast network of ancillary services.

This then is ITC. Not just a corporation, but an institution in the national mainstream.

No wonder, then, that ITC is so intimately linked to the hearts and minds of so many in our country. I am sure that you, our shareholders, have the same sense of pride that your Board has in the unique position that ITC occupies. This is a position that we intend to secure and strengthen.

In this 50th year of our Independence, I, together with your Board, pledge our fullest endeavours in shaping a bright future for ITC. Towards this end, I am sure we can rely on your unstinted support as always.