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ITC LIMITED: NATION FIRST

J RAMACHANDRAN, K S MANIKANDAN AND SAVITHRAN RAMESH

J. Ramachandran, Professor of Strategy, K S Manikandan, Associate Professor, IIM Tiruchirappalli and Savithran Ramesh, Research Associate, IIM Bangalore, prepared this case for classroom discussion. This case was developed from available and permitted sources of information. No funding was sought or received from any source for the development of this case. This case is not intended to serve as an endorsement, source of primary data, or to show effective or inefficient handling of decision or business processes.

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opp. squaring off

January 2021. There was a sharp increase in the short positions in the February futures of ITC Limited as traders feared another steep hike in taxes on cigarettes in the coming 2021 annual budget of the Government of India. A fresh round of tax on cigarettes would not only impact the profits of one of India's widely diversified companies adversely, but also provide fillip to the growing calls to break up the company and derail the plans of Sanjiv Puri, the company's Chairman and Managing Director, to meet the company's aspirational goal of achieving ₹1 lakh crore[1] in revenues from FMCG products by 2030.

Sustained diversification and expansion by ITC over the last two decades had reduced the contribution of the cigarette business to less than half in terms of revenue, but dependence on profits from cigarettes was still high at over 80% (see **Exhibit 1**). While the company had successfully created 25 mother brands in the FMCG space, their profitability remained weak (see **Exhibit 2**). It lagged its well-established competitors in terms of margins (see **Exhibit 3**), leading to calls for a review of the company's strategy and its leadership. The blog of a "distraught" shareholder addressed to the company's board had gone viral. The blog said:[i]

> The unbridled power that you wield without being questioned by a *real promote/entrepreneur* has spelt a real disaster…the crux of this note is that if you cannot protect *my wealth* thru the alleged magic of your strategy and leadership - You don't have the moral right to hold these positions and lead *my company*. … [Enron] lost their way alongside because they didn't know when and where to diversify and how to wisely allocate capital and burnt cash and rapidly eroded shareholder wealth. Don't take *my company* down that path… The FMCG division launched in 2000 generates just 3-5% PBT, that's a meagre 6% segment ROE (vs >35% of other FMCG players) …that 'we are becoming a global FMCG brand' is fine – how is it value accretive *for me* … *My cash* business is being used to fund the inefficiencies of the entire company without a credible benchmarking against other brands/businesses that are doing well *(emphasis added).*

However, Puri was not unduly perturbed. First, he had already informed the shareholders at the last Annual General Meeting that the ITC Board and he were open to exploring alternative structures for enhanced value creation, and specifically referred to the capital-intensive hotel business. Second, in the previous year, the company committed to maintain a dividend pay-out ratio of 80–85% of profit after tax in the medium term.[ii] Third, until recently, the company's strategy of putting the "nation first" and building "societal value" by investing the surplus cash flow from the cigarettes business in non-tobacco sectors (see **Exhibit 4**) to build a "new ITC", had resonated with the shareholders and the capital markets; the company's stock outperformed the stock market indices (see **Exhibit 5**). However, the inability to offset the steep increase in taxes on cigarettes in 2020 through price increases coupled with elevated input and gestation costs of launching innovative new products in different categories (see **Exhibit 6**; the company had over 100 new launches in 2020-2021[iii]) impacted the company's share price adversely. More critically, stock markets did not seem to assign much value either to ITC's emergence as a large FMCG player with significant future potential (see **Exhibit 7**) or to the older businesses (paper, hotels and agri business) in its portfolio, where the company had built strong market positions (see **Exhibit 8**). Puri observed:

> In the last three years FMCG margins have expanded by 460 basis points… it is on a robust trajectory, and I believe that this trajectory will sustain… we will get the advantages of scale, the premiumization that we are doing in the portfolio, the benefits of the investments that we have made in supply chain… will bring operating and structural efficiencies. We have invested…with bold aspirations to create a large business and we did it much ahead of time and we are now in a good position to harvest the benefits. It is quite surprising to see the [share] price …because in the last three years our EPS has gone up by 47%, our return on segment capital has gone up from 61 to 72%... each of our [older] businesses are leaders in their segments… they are leaders in the quality of products and services they're leaders in terms of the superior financial metrics… our fundamentals are strong, we have robust cash flows… we are debt free and we have

[1] 1 crore = 100 lakh = 1 million, ₹1 crore ~ US$730 million in January 2021.

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good quality of governance… for some reasons this is not getting reflected in the stock price…this is despite the fact that 41 out of 42 analysts actually gave a buy/hold rating![iv]

THE EARLY YEARS

The Imperial Tobacco Company (ITC as it was known later) came into being in August 1910 when British American Tobacco (BAT) consolidated its Indian operations under a single umbrella. BAT's engagement with India began when two of its employees, Jellicoe and Page, came to India in search of an agent to distribute its Wills and Scissors brand of cigarettes. At that time, cigarettes were virtually unknown in the country, although tobacco consumption was not.[2] BAT set about educating people on the "pleasures of smoking cigarettes".[v] Musical trucks traveled from district to district advertising the company's products. Sales soared and soon an extensive distribution network which managed to reach hitherto inaccessible hamlets came into being.

Cigarette manufacturing in India started in 1907 when BAT set up a factory in Munger, Bihar. Local sourcing and processing of tobacco began in July 1912, when BAT established the Indian Leaf Development Company to explicitly focus on this task. To meet the packaging and printing requirements of the cigarette business, BAT set up a packaging and printing facility in 1925. By the time the Imperial Tobacco Company moved to its headquarters, ''Virginia House'', in the busy Chowringhee Lane of Kolkata in 1928,[vi] it was managing the entire gamut of BAT's tobacco operations in India.

The years after India's independence were rather challenging for the company. Taxes were levied on cigarettes for the first time in 1948 as the newly formed Government of India sought to mobilize resources to fund the country's development. Soon, taxes became the single largest component of the cost of cigarettes as various state and local governments began to levy taxes on cigarettes. To sustain its profitability, the company raised prices on its brands steeply. Several of Imperial's brands lost share to lesser-priced brands from local players such as Golden Tobacco and National Tobacco. By 1961, the company's market share had slipped to less than 40% from a high of over 70% just after independence. It was at this time that the company began a significant journey that would ultimately place it as one of the leading companies in the country and one person who would play an important role in that journey was Ajit Narain Haksar.

THE HAKSAR YEARS (1969-1983)

Born in Gwalior, where his father served the royal Scindia family in various ministerial roles, Haksar went to the elite Doon School and then to Allahabad University for his undergraduate studies and finally to the Harvard Business School for his MBA. On his return, he joined the Imperial Tobacco Company. He started in the sales function and went on to set up the "market research" department that many believed helped institutionalize the marketing function in the company. Later, Haksar led the team that launched the successful *Wills Filter* brand with its memorable tagline "Made for each other".

A two-year stint as personal assistant to the director overseeing international operations at BAT headquarters in the United Kingdom proved to be not only a "very happy and rewarding period" but also one that "widened the horizons" of Haksar's thinking. Importantly, it shaped his beliefs about the roles and responsibilities of a professional manager.[vii] Haksar saw that successful country managers in BAT "were motivated by larger interests than merely working to hold on to a job and, while they managed the BAT shareholdings, they displayed the courage of their convictions by standing up for what they believed in, in the interests of their country and the organizations they

2 Tobacco was consumed in the form of *hookah* or *bidis* or simply chewed. *Hookah*, a Hindi and Urdu term refers to a single or multi-stemmed (often glass-based) water pipe for smoking based on water filtration and indirect heat. *Bidi* in Hindi refers to a thin, often flavored, cigarette made of tobacco wrapped in a tendu or temburini leaf and secured with colored thread at one end.

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managed".[viii] He concluded that "any Indian guiding the destiny of a company, who is a mere post office for the overseas minority shareholder at the cost of Indian interests is being neither professional nor truly selfless Indian"[ix]. Describing BAT as an "outstanding example of a great company", Haksar wrote:

> BAT was truly professional, perpetuating itself, governed and directed with independence by its Board of Directors to become a global economic force without the investors or any other vested interests interfering, influencing and dictating to its top management what they should or should not do and how the business should be managed.[x]

Consequently, when Haksar was entrusted with the task of leading the company as its first Indian chairman, and to do it with a "clear conscience" because he believed that the board of directors in India should have "the freedom to decide, do, dare, and shape the destiny of the company independently",[xi] Haksar asked the BAT leadership team:

> Which comes first - your company or my country? Who runs the Company - BAT or the Chairman and the Board of Directors in India? Will the company be required to do what BAT wants or what the Chairman and the Board of Directors in India consider to be more appropriate investments with relevance to India?[xii]

In line with BAT's policy of being "a good citizen in the host country", BAT chose the latter option in each of the questions posed by Haksar but with the proviso that in the "discharge of such trust being placed, the chairman personally, and the board of directors in India, would protect—not put at undue risk—and do their best for the BAT interests in India.[xiii]

Professional Management

Haksar's elevation to the top job was in part influenced by the strong nationalist undercurrent that swept the country in the late sixties and early seventies. The company's rival, Golden Tobacco, sought to position Imperial as a "foreign company", which "endangered" indigenous firms. Haksar believed it was in the best interests of everyone—BAT, the company, and India—for BAT to progressively withdraw from exercising ownership control over management, and morph, like BAT, into an independent board managed company led by professional managers. Describing the divorcing of ownership from control as one of the main ingredients of professional management, Haksar, in his first speech to shareholders as chairman, said:

> A professional manager is detached from ownership. In governing and directing authority, he is a Trustee of all shareholders alike, without any distinction or bias, regardless as per the law or the ruling of the general body. He is the Trustee of all directly or indirectly connected or interested in the enterprise and, above all, he is a Trustee of the national and public good. As a Trustee he is a servant of the corporation; the corporation only and nobody else…I must, therefore, in the first instance, disabuse you of any idea that profit-motive is the only central inspiration. We are concerned with profits (in the short-term and long-term) as the true measure of our performance—that we have maintained the organization in sound financial condition and have obtained for the shareholders a proper return on their investment representing a fair reward for the contribution made. But we are also concerned with the well-being of the organization in its totality as industry is an organ of society.[xiv]

To "shed the past" and "to be, and be seen to be, as an Indian enterprise; free from the constraints of historic ownership",[xv] the company's name was changed to Indian Tobacco Company.[3] Soon thereafter when, under the Foreign Exchange Regulation Act, multinationals were required to dilute their ownership in their Indian arm to 40%,

3 Subsequently to I.T.C. Ltd. and thence to the current ITC Limited, with a catchy tag line: *no full stops* for ITC.

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BAT reduced its stake accordingly (several others such as IBM and Coca-Cola, which did not want to dilute equity, exited India) (see **Exhibit 9**). The company also stopped paying fees for technical and administrative services to BAT and discontinued internal audits by visiting BAT auditors. The frequency of visits to BAT head office came down, and presentations to the BAT leadership was kept to a minimum. Haksar wrote:

> The new ITC emerged free of legislative constraints, on par with 100 per cent Indian companies which ensured its survival, which had been in jeopardy, as witnessed by a host of foreign investments that had vanished. It lifted the shutters put down on growth in the traditional cigarette business without which, at best, survival meant sustaining increasing losses with a declining market share and not having the opportunities for diversified expansion.[xvi]

Diversification

To enable its transformation into a "business of businesses", the company put in place an enabling divisional structure. The printing and packaging activities of the company was carved out as a separate division—Packaging and Printing Division (PPD)—and tasked to run as a standalone business responsible for its own growth and profits serving external customers in addition to serving the needs of the company. ITC set up a 'Marketing and Exports Division' (MED) to leverage its marketing prowess and distribution network by offering marketing services to other firms. For example, MED helped one company to test-market its tea in Punjab and another company to market its bulbs in Bengal.[xvii] On the exports side, Haksar envisioned MED to grow into a Japanese style trading house. However, the division did not grow as expected. Another internal department, the company's share registration department, was hived off as a separate company named Corporate and Personnel Affairs (CPA). CPA was to develop a new business offering secretarial and share registrar services to other companies and over time grow into a "financial services powerhouse".[xviii]

ITC supplemented its efforts to "grow from within", by exploring external opportunities. The company's corporate strategy blueprint stated that "the best protection for the major shareholders lies in identification of corporate objectives with national aspirations".[xix] Haksar and his team zeroed in on paperboards, hotels, marine foods, and general exports. Haksar observed:

> There was, of course, the need to educate the overseas shareholder. In fact, I feel it is necessary for all Indian managers in foreign companies to perceive that the interests of the overseas shareholder and national priorities are not always the same. But there are areas for mutual benefit, and with an enlightened view, it is possible to satisfy a diversity of interests.[xx]

However, BAT had strong reservations about the company's ability to manage diversification. When Haksar and Sarin, first presented the plans for a paper mill, a BAT director commented: "Paper Mills are difficult, and you cannot build them on enthusiasm. We know from our experience in the rest of the world. You will not succeed in completing it either in time or within the budgeted cost". [xxi]

Nevertheless, the company went ahead and set up the paperboards business as a separate company, as required by the prevailing regulations, Bhadrachalam Paperboards Limited (BPL). On July 27, 1979, Sarin wrote:

> This letter is written on the first sheet of paper produced at Bhadrachalam Paperboards Limited (BPL). It is not indicative of quality, but it does signify human endeavor and enterprise. The project has been completed before time and within the agreed budgeted cost.[xxii]

To de-risk its entry into the hotel industry—chosen both for its potential to earn foreign exchange, and absence of competition in the industry—the company sought to strike a partnership with the leading hotel chains—the Oberoi Group and the Tata Group—in the country. When these efforts failed, the company decided to establish an

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independent hotel chain. Branded *Welcomgroup*, each of the company's hotel properties was designed to reflect regional history. The company also signed an agreement with the international major Sheraton to access their operational expertise and market its hotels.

While the venture into hotels and paperboards proved successful, the company's foray into marine foods failed. Haksar explained:

> Two of the assumptions made led to the belief that the necessary experience and expertise required were available in-house. The first, was to equate the purchasing, storage and processing of the fishermen's catch with buying, handling, and treating tobacco; the two are as different as chalk is from cheese. The second, was that trawler operations and trawlers could be managed and supervised like factories and offices overlooking that, while the latter were under one roof and static, the former operated in open waters and were mobile.[xxiii]

Two other ventures—ITC Garments and ITC Tuff Tools—set up to export garments and machine tools were shut down due to execution problems. Regarding Tuff Tools, Haksar observed: "It was a wrong business to get into…the decision was made with blinkers on; shutting the eyes to the subsidized competition from East European countries and export thrust economies, such as Taiwan".[xxiv]

In 1982, the company clinched a deal with Indian financial institutions to buy out their 33% stake in India Cements, one of the leading cement companies in South India, on favorable terms. The cement business was seen as a springboard to build a portfolio of construction and building products. As a quid pro quo for the stake in India Cements, ITC was required to take a minority stake in the loss-making public-sector unit Ashok Paper Mills. Haksar wrote:

> The real price paid to acquire India Cements was not in money; nor was its monetary problems in the case of Ashok Paper…[it] was the challenge and the risk taken to turn around Ashok Paper, extending the ITC Group interest in the paper industry.[xxv]

Haksar won many accolades, including the inaugural 'Businessman of the Year' award in 1982 from *Business India*, for transforming ITC. L.M. Thapar, the legendary Chairman of Ballarpur Industries, noted:

> A.N.Haksar has proved that even multinationals with the traditional attitudes of single product companies in India are capable of being revitalized and of being given the capacity to thrust into new directions and opportunities for the benefit of the country. [xxvi]

In 1983, Haksar stepped down. Jagdish Sapru, an ITC veteran, took over as Chairman.

THE SAPRU YEARS (1983-1991)

One of Sapru's first decisions was to reverse the India Cements deal. He explained:

> The value of the acquisition of one company by another is asset creation that can be put to beneficial use through management and direction. But with the change in the attitude of the government, we may not have been allowed to get into the driving seat even to the extent of creating career opportunities for our managers. Moreover, with the financial institutions against the deal unless it included a further investment in Ashok Paper Mills, raising further resources would have been difficult. [xxvii]

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Years later, when Sapru reportedly admitted that it was a mistake to have let go of the India Cements deal, an upset Haksar wrote: “Who can deny that getting control over ₹300 crores worth of assets for a pittance of ten crores or a little more was not good business for ITC?”[xxviii]

Other setbacks dogged the early Sapru years. In 1983, ITC was charged with tax evasion and a long drawn legal battle ensued. On the market front, the company ceded market share to new offerings by competitors. For example, Golden Tobacco’s new brand *Flair*, promoted with an upper middle-class image and a low-price tag, was an instant hit; it garnered a volume of over 60 crore sticks within 3 months.

The tide turned when the government, after years of lobbying, decided to levy excise duty on the *length* of the cigarette, instead of the price of the cigarette; ITC benefited the most as it had a strong portfolio of high-priced brands. While profits improved further following the modernization of the cigarette factories, the company continued to feel the overhang of the charges of evasion of taxes. One senior official commented: “Right or wrong, in the public eye we are made to look like a bunch of thieves”.[xxix] K.L. Chugh, then Vice Chairman, stated: “There is definitely a need to diversify into areas which will change our image and will also put the company on a stronger footing.”[xxx]

Sapru then set up an Agribusiness Division to source, manufacture, and export agricultural products. The division first targeted the ₹17,000 crore domestic edible oil market (with plans to move into adjacent businesses such as soaps in the future). The division procured oilseeds, refined them at the state-of-the-art refinery set up under ITC Agro-Tech Ltd., and marketed them under the brand names ‘*Sundrop*’ (sunflower oil) and ‘*Crystal*’ (groundnut oil). Both brands quickly gained share in the market. Later, in 1988, on the insistence of the Punjab government, ITC took over the loss-making Punjab Anand Batteries. The move was a disaster with ITC having to write off the investment. In 1989, ITC bought BAT’s stake in Tribeni Tissues Limited, a specialty paper company. It planned to consolidate all its paper and packaging businesses under ITC-BPL. The addition of the ‘ITC’ suffix to BPL was part of a plan to transform itself into a holding company retaining the tobacco business and spinning off the other businesses as separate legal entities (see **Exhibit 10**). Bishu Mitter, Director-Finance, claimed: “As independent companies, it will be easier to raise funds from the market rather than as divisions of ITC Limited”.[xxxi]

Even as Sapru acknowledged the challenges posed by the company’s diversification strategy— “In the past, when ITC was a single product company, it was possible to get our bearings by answering the question, ‘what business are we in?’ Today, with a multiplicity of businesses, we must answer the question ‘What do we stand for?’”[xxxii]—the company continued to scout for new diversification opportunities. Sapru said: “We even looked at petrochemicals, but this was not our area of strength.”[xxxiii] Following BAT’s foray into financial services, ITC set up ITC Classic, a non-banking finance company engaged in hire-purchase and leasing operations. Finally, strongly believing that “it is time to carry the Indian flag abroad”,[xxxiv] ITC opened its famed Bukhara restaurant in New York. It next expanded its cigarette business outside India, including setting up Surya Nepal Private Limited that quickly emerged as the market leader in Nepal.

In 1991, Sapru retired and K.L. Chugh succeeded him. During Sapru’s time, in sharp contrast to what was to come later, the relations between the parent company and ITC were peaceful. Sapru went so far as to suggest that the parent company was ‘indifferent’. He said:

> While BAT was a good source for process technologies, our overseas shareholder had taken up an attitude of uninvolvement in ITC’s affairs…. If the foreign shareholder gets more and more non-involved, there is always the danger it would sell out its stake. That would be retrograde. In our effort to export, and to internationalize ITC, the BAT link becomes important.[xxxv]

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THE CHUGH YEARS (1991-1995)

Chugh's assumption of office as Chairman of ITC coincided with the Government of India's reversal of the country's four-decade old protectionist policy. Chugh declared: "We must be ready to compete presently in India with global players and eventually compete globally with global players"[xxxvi]. Over the next 2 years, ITC relaunched and repositioned each one of its seven major brands: India Kings, Classic, Wills, Scissors, Bristol, Gold Flake and Capstan. Promotional strategies were revamped, fresh advertising campaigns launched, and the distribution network overhauled. Chugh was also keen to launch BAT's top of the line brands like Benson & Hedges, 555 State Express, and Lucky Strike. When he reached out, BAT did not agree claiming that the timing was not "appropriate". Chugh did not rule out the possibility of BAT's decision having been influenced by the fact that it did not have 51% stake in ITC.

The edible oil business was consolidated under the subsidiary, ITC Agro-Tech and the hybrid seeds business hived off as part of a joint venture with Zeneca, leading global player in hybrid seeds, and named ITC Zeneca. To enable access to cost-effective finance, the capital-intensive hotels business was consolidated into a subsidiary, ITC Hotels Limited, in which ITC had 70% stake.

Chugh identified financial services and global trading as the new engines of growth. Classic Finance Limited, started in 1986 under Sapru, was renamed as ITC Classic Finance Limited. Soon, the subsidiary had attracted a depositor base of 400,000. The company set up two ventures—ITC Peregrine Mutual Funds and ITC Peregrine Capital—in partnership with the Hong Kong based Peregrine Investment Holdings, a financial major with significant presence in Asia-Pacific, London, and New York. However, the partnership proved to be short-lived due to irreconcilable differences over the management structure. ITC also tied up with BAT's insurance subsidiary Eagle Star Insurance Company to enter the insurance sector as and when the government opened this sector. The company also made an application to the government to grant it permission to enter the commercial and retail banking sector.

The company's export business was carved out into a 100% subsidiary, ITC Global. Chugh wanted the Singapore-headquartered ITC Global to become India's largest sōgō shōsha.[xxxvii] He explained:

> These Japanese corporations [sōgō shōsha] represented the marketing arm of the Japanese people …they developed marketing networks across the world and today dominate world markets…ITC Global will play the role of an Indian sōgō shōsha …I am confident that this small step will help India's entry into world markets[xxxviii]…While foreign investment into India does benefit the economy…even greater benefits would be achieved if we nurture and develop our own companies to grow into India's multinationals.[xxxix]

Chugh credited the emergence of German and Japanese multinationals to the support extended by their respective governments and called for a similar support from the Indian government. He appealed:

> A Golden Share concept needs to be brought in whereby financial institutions and banks hold a Golden Share, perhaps between 26% and 40%, of large Indian companies with multinational aspirations, to enable them to compete and grow, enriching India in the process, without worry about loss of control.[xl]

To help him execute his plans to transform ITC by pursuing new growth opportunities (the company had plans to enter the power sector and was in talks with UK-based United Biscuits to launch biscuits), Chugh brought back Y.C. Deveshwar, an ITC veteran, who had left ITC to become the chairman of the national carrier, Air India as the company's Vice Chairman. When he sought to induct two other executives on the board, BAT opposed it. At BAT's insistence, the board set up a Nominations Committee comprising the chairman and non-executive directors of the board to vet all appointments to the board (see **Exhibit 11**).

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Turbulent Times

In 1993, when British Prime Minister John Major visited India as the chief guest at the Republic Day Parade, BAT officials who were part of the Prime Minister's entourage broached the proposal of increasing BAT's stake in ITC with the Government of India. Norman Davis, the BAT nominee on the ITC Board, would later reveal that BAT got positive signals from the government for this move. More importantly, he added, the ITC management had been aware of the proposal all along and ensured complete support.[xli] However, in March 1994, when BAT vice-chairman and managing director, Martin Broughton visited India to take the matter forward, he was cold shouldered by the Finance Ministry. BAT believed Chugh had lobbied with the government to change its earlier view. Relations between BAT and ITC, under strain because of Chugh's refusal to withdraw the $9.2 crore equity issue in the international capital markets[4] and his "failure" to seek BAT's prior approval to the company's partnership with Peregrine, deteriorated further.

The rift between the two began to widen when BAT insisted that ITC shed some or all the businesses in which BAT had no global interest. Davis said:

> We would prefer that it [businesses] be biased towards tobacco and financial services which are areas where we feel we have an important contribution to make. If the right structure to do this can be found, it should be possible to allow ITC to operate and grow in a way which is totally appropriate to its position in India and the contribution it can make to India's economy.[xlii]

Chugh and his team refused. They did not want ITC to be "a little tobacco company"[xliii] and pushed for plans to enter the power sector. The matter was left to be resolved at an Extraordinary General Meeting (EGM) of the shareholders on March 24, 1995. Two days before the EGM, BAT issued a terse press statement alleging *"*culpable financial irregularities" by the top management of the company and called for Chugh's resignation. Realizing that restricting the company's diversifications was being perceived as being against the country's interests, BAT declared that it would favor diversification into the power sector but under a "more competent" leadership. Many believed that BAT, having failed to get a majority stake, was seeking to gain control over the management as ITC's plans to grow its cigarette exports could impair BAT's global growth plans; control over ITC would help it source from ITC and market globally.

Chugh responded aggressively. Accusing BAT of being only interested in furthering its own business interests abroad, he asked whether the Indian government would allow the Taj Mahal, the Indian world heritage monument, to be sold for a billion dollars to a foreigner. Political parties swerved to support Chugh against a "takeover attempt" by BAT. Chugh said: "Jyoti Basu [then Chief Minister of the State of West Bengal] has told me that he will never allow the British to re-colonize India a second time via Calcutta!"[5]. And one day before the EGM, the financial institutions UTI and ICICI that had over 30% stake in the company, used their right to appoint two representatives on the board. They asserted: "Normally we do not destabilize a company if its performance is good. In such cases, the company's stand is our stand."[xliv]

In the stormy EGM, Chugh declared that the resolution enabling further diversification was adopted; BAT's demand for a vote got drowned in the brouhaha. Davis quipped later that he had come prepared for an EGM and not a rugby match.[xlv] However, BAT managed to defeat the proposal to enter the power sector by forcing a poll and voting against it. At the board meeting that followed, when Chugh asked for expression of support in response to the BAT demand that he resign, five of ITC's nine executive directors on the board declined suggesting their displeasure

4 Since then, ITC has not raised any fresh equity.
5 The reference is to the popular understanding that the British colonial rule in India started with the conquest of the territories of Nawab of Bengal, whose capital was Calcutta (later Kolkata), in 1757.

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about Chugh's style of functioning.[xlvi] Many considered him to be "arbitrary and whimsical" and were upset with his shuffling of board-level responsibilities that altered the line-up for succession.[xlvii] The board's grant of the mandate to the auditors to investigate the matter of financial irregularities alleged by BAT in that meeting suggested their tacit support to BAT.

The auditor's report, submitted a couple of months later, was a damning indictment of the way ITC and ITC Global was managed.[xlviii] However, Chugh rejected the report: "The special auditors lacked objectivity and integrity, have acted with bias and made every attempt to support their preconceived judgments to hold me guilty."[xlix] The audit committee of the board too dismissed the report as baseless and absolved Chugh of all charges. It merely recommended that the company take steps to tighten controls. Soon thereafter, Chugh stepped down saying "it is in the best interests of the growth of the company". He was designated Chairman Emeritus with full compensation until the completion of his tenure in 1997. Barry Bramley, CEO of the tobacco arm of BAT, remarked: "Let's forget the past; we want to talk about the future."[l]

BAT wanted to appoint an outsider to succeed Chugh. It also wanted the roles of the chairman and the chief executive to be split and wanted an independent director to chair the board. However, the Nominations Committee of the board rejected both the suggestions and appointed Y.C. Deveshwar as executive chairman of the troubled company. An upset Davis said: "It's a great pity that we couldn't arrive at a consensus. [Mr. Deveshwar] has a difficult job ahead of him. I certainly wish him all the best."[li]

THE DEVESHWAR YEARS (1995-2017)

Deveshwar's first year was crisis laden. A retrospective excise demand of ₹803 crore, on his first day in office, imperiled the company's financial stability.[6] Next, the financial services arm – ITC Classic – reported huge losses that almost wiped out its net worth. Then, the company's global trading arm, ITC Global, faced liquidation.[7] Deveshwar acted swiftly. He first infused substantial capital into ITC Classic and then hired the consulting firm, Mckinsey and Company, to develop a turnaround strategy. They recommended restructuring of the financial services arm. However, Deveshwar preferred to divest the business despite the "exit cost" of ₹800 crore. He said: "The financial collapse of Classic Finance would have caused distress and panic among lakhs of deposit holders, which would have neither been in the interest of the company nor in the national interest."[lii]

The company also sold its stake in ITC AgroTech and in ITC Zeneca, to the US Foods major, Conagra. Deveshwar said: "My dictum is that if a business does not add value in the ultimate analysis, we have to get out of it[...] Unpleasant decisions will be taken, but I hope fairly & firmly, in an issue-based, not personality-based, manner".[liii]

The next major crisis was the arrest of the two former chairmen, Sapru and Chugh, and several of the executives by the Enforcement Directorate of the Government of India. They (and ITC) were charged with under-invoicing export deals and retaining excess foreign exchange abroad and repatriating them as profits on other loss-making exports.[liv] Deveshwar, who was questioned for long hours but was not detained, saw this as an attempt by BAT to resolve the broad disagreement at the "conceptual level" about the role of ITC—whether it was an engine for creating value for the Indian society or for BAT shareholders—by discrediting the local management team. He said:

> They [BAT] created an atmosphere whereby everybody was made to believe that this was a company of crooks! And the only salvation for this company is their taking over!... And the pity is, most people in India,

[6] In 2004, the Supreme Court of India ruled in ITC's favor. The negotiations thereafter with the government resulted in a settlement with the latter retaining the monies already paid (~₹350 crore) and relieved ITC of further liabilities.
7 ITC Global incurred huge losses following steep erosion in margins. ITC's request to infuse capital was turned down by the government and the company was placed under judicial management and eventually dissolved in 2018.

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> including the press bought that line.[lv]

Deveshwar fought back. He appealed to the authorities not to act based on allegations and press campaigns. He then made a public offer granting authorization for any "anybody to look at any bank account in the world". According to Deveshwar, the offer proved to be the turning point. "Then people began to see the truth… if that was to happen ever again to any other Indian enterprise, the media and government would not take a hasty view.[lvi]

Deveshwar found some respite when ITC successfully thwarted BAT's attempt to set up a separate 100% subsidiary in the country to sell its international brands. The move failed to fructify because existing regulations required ITC to accord its approval. Intense negotiations between ITC and BAT followed; both parties agreed to bury the hatchet and move forward. Deveshwar disclosed:

> There is complete agreement on corporate strategy between the two companies…The guiding principle of our strategy is to remain in only those businesses where we do, or can in the future, dominate the concerned industry, initially, in the Indian, and then, in the global context. We have no special love for any business, but whatever we choose; we will do so with a commitment to it. [lvii]

Focus on the Core

To sustain its leadership of the cigarette industry, the company announced a "seed to smoke" strategy and made significant investments. A state-of-the-art green field plant was set up in Bangalore; the plant at Sahranpur, Uttar Pradesh was upgraded and modernized. The tobacco threshing units at Chirala, Andhra Pradesh were also made state-of-the-art. The company's brand portfolio was rationalized; brands at the premium end of the market were strengthened.

The other two core businesses—hotels and paperboards—too met with Deveshwar's attention. He observed: "After entering the hotels business 25 years ago, the company lost direction and ventured into financial services and edible oil businesses".[lviii] As a first step, the company undertook a rebranding exercise. It classified the hotels under four categories– the Luxury (ITC Hotels), upscale segment (Welcom Hotels), Heritage (Welcom Heritage), and mid-market segment (Welcom Fortune). It then set about growing its footprint in each of the four categories to become the second largest hotel chain in the country. By 2021, ITC, which operated more than 100 hotels under these four brands in over 70 destinations in the country, had the largest chain of hotels in the world, as per US Green Business Council, with maximum (Leadership in Energy and Environmental Design) Platinum properties.[lix] Moving forward, the company planned to achieve a balance between owned and managed properties by adopting an "asset-right" strategy.

Likewise, significant capital investments were made to improve the competitiveness of the company's paper arm. A state-of-the-art 100,000 tons per annum elemental chlorine-free fiber line—the first and the only one in India—was set up signaling the company's focus on value-added paperboards. To improve access to cost-effective fibrous raw material, the BPL engaged in extensive social and farm forestry. To capture operational and strategic synergies and to give the "full-throated"[lx] support that he believed the paperboards and hotels businesses needed, Deveshwar folded them into ITC. After the merger of the subsidiaries with itself, the three core businesses were placed within the newly introduced three-tier governance framework (see **Exhibit 12**). Deveshwar said:

> It (the new Corporate Governance structure) places the top management in the unique position of being able to assume the character of a holding company with the mindset of a venture capitalist, mentoring existing businesses and creating newer avenues for growth by blending skills and capabilities drawn from different parts of the ITC Group. Overtime, these blended capabilities will, in turn, spawn newer competencies thereby imparting multiplier effect to your company's growth strategies.[lxi]

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Venture Capitalist

The explosive growth in software services sector prompted ITC to set up a 100% subsidiary, ITC Infotech. The subsidiary offered offshoring solutions in banking and financial services, consumer packaged goods, health care & life sciences, manufacturing, travel, and hospitality. In 2020, ITC Infotech was a mid-sized software services firm with revenues of ₹2268 crore and PAT of ₹209 crore. The company also ventured into apparel retailing by opening its first Wills Lifestyle store in 2000 in an upmarket location in Delhi. It sold relaxed wear for men and women under the brand name Wills Sport. In the following years, ITC expanded the product range to include Wills Classic (formal wear), Wills Club life (evening wear), John Players (popular range for men) and Miss Players (for young women), and a couture line under the Wills Signature label after it became the title partner of the high-end India Fashion Week. However, after the initial promise, this business failed to scale; it was not profitable. In 2019, ITC sold the John Players brand to Reliance Retail and rebranded Wills Lifestyle as WLS and positioned it as a 100% natural apparel brand.

Perhaps, the most significant move ITC made during this period was the setting up of e-sourcing hubs for its agri-business division, branded as e-Choupals (*Choupal* means "gathering place" in Hindi). These hubs selectively disintermediated the middlemen who had a tight hold on the Indian agricultural value chain by directly reaching out to the farmers. ITC set up kiosks (computers with Internet access) manned by trained locals in rural areas that enabled farmers to access information in their local language on the weather, market prices, scientific farm practices, and risk management. e-Choupal soon became the largest initiative among all Internet-based interventions in rural India, reaching out to over 40 lakh farmers in nearly 40,000 villages and helping ITC source farm produce efficiently. Regulatory uncertainties, however, proved to be a speed breaker. However, the recent agricultural policy reforms that relaxed restrictions on sourcing and trading of agricultural produce were encouraging; ITC was planning to scale the e-Choupal network.

The success of e-Choupal and the social capital generated by the project further encouraged the company to envision a larger role for itself in the Indian economy and society. In his address to the shareholders over the years, Deveshwar had outlined ITC's vision and values. He had said:

> A compelling Vision creates and forges corporate identity. It imparts a larger purpose and meaning to individual endeavor. It is aspirational, unifying and motivational. Envisioning a larger societal purpose has always been a hallmark of ITC[lxii]… As a Company deeply rooted in India's soil, and inspired by the opportunity to serve a larger national purpose, ITC had redefined its Vision …to transform the Company into a vibrant engine of sustainable growth with substantial and growing contribution to the Indian Economy[lxiii]… We take pride that your Company is defined by its deeply 'Indian' character[lxiv]…Such a character flows from the Indianness of its soul rather than the origin of its capital.[lxv]

Drawing a distinction between an ''Indian'' company and a company operating in India, Deveshwar informed the shareholders of ITC:

> The difference lies in the depth of commitment to the Indian economy. A global company *per se*, by definition, tends to be committed to the primacy of shareholder value above all else, and towards this end would source globally from locations where quality and cost are most competitive, and manufacture and add value where it is most efficient to do so in supplying to target markets to maximize profits. On the other hand, an "Indian" company would go the extra mile in partnership with other participants in the economy to create conducive conditions for international competitiveness towards maximizing value for the Indian society of which it is a part.[lxvi]

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ITC significantly widened its engagement with the community through a host of activities ranging from afforestation to primary education in rural areas. The reach and impact of the company's community-focused initiatives were massive. The company also made significant progress with its ecology-oriented initiatives. It turned '"water positive" in 2002, ''carbon-positive'' in 2006, and ''solid waste recycling positive'' in 2007 and had since sustained these environmental distinctions. These achievements coupled with the continued superior performance on the business front resulted in the company gaining global recognition as an exemplar of triple bottom line[8] performance.[lxvii]

FMCG Major

Realizing that its e-choupal network provided the company with an invaluable agri-commodity sourcing capability, ITC entered the branded foods market. The company began by launching its popular lentil preparation in its famed Bukhara restaurant, ITC Maurya, Delhi under the ''Kitchens of India'' brand. It followed this up with brand launches in the confectionery, staples, and snack foods segments. The company's Aashirvaad brand of atta (wheat flour) wrested leadership from Unilever's Indian subsidiary, Hindustan Unilever. Other notable successes included Mint-o Fresh, its cough lozenge brand, Bingo, the company's finger snacks range, and its Sunfeast range of biscuits. Deveshwar attributed the success to the company's ability to leverage the diverse set of skills built in its various businesses. He said:

> When we created the Aashirvaad brand of *atta*, we did not just buy wheat; we bought 18 grades of wheat, using the e-choupal network. Then we blended them—based on feedback on regional tastes from our chefs—using our tobacco-blending skills. Result: what we sell in the west is not what we sell in the north and the east. We created mass customization in a commodity. We simply identified our core competence and then encouraged people to piece it together.[lxviii]

The company's paper business leadership team pieced together the company's diverse competencies in branding, distribution, and manufacturing to enter the greetings card market, until then dominated by Archies and Hallmark. However, the rapid growth of e-cards prompted the company to withdraw from this market. It then focused on the children's school notebook market; and its Classmate brand became the largest brand in the segment. To gain a ''major share of the schoolbag'', the company launched the Paperkraft brand that included pens, pencils, geometry boxes, etc.[lxix]

The company also garnered significant positions in the safety matches and incense sticks (Agarbattis)[lxx] markets. The success of the company's brand ''Aim'' prompted the long-time market leader WIMCO to sell its business to ITC. For its foray into the incense sticks market, ITC collaborated with several non-governmental organizations and government agencies in natural resource-rich but economically backward states of the country and its *Mangaldeep* brand quickly became the second largest in the country.

These successes prompted Deveshwar to set an "audacious but not ambitious"[lxxi] goal for ITC: To become the No. 1 FMCG company in the country. The FMCG sector in the country has long been dominated by multinational subsidiaries. Many of them such as Hindustan Unilever, Colgate Palmolive, Procter and Gamble, and Nestle had a long presence in the country. Others, Pepsi, Perfetti, L'Oreal, etc., although relatively late entrants into the Indian market, quickly established strong and in some instances, leadership positions in the Indian market. ITC's goal of becoming the No. 1 FMCG player effectively implied that it would compete with every major FMCG multinational in the country. Deveshwar declared:

[8] Triple bottom line entails, in addition to the traditional disclosure of ''financial'' metrics, the reporting of the effects of a firm's activities on the ''environmental'' and ''social'' fronts.

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> Let me say once for all. It is ITC's stated aspiration to be a very large FMCG player. If you show me any fast-moving consumer good and ask me whether ITC will be interested in that space, the answer is ''Yes, we aspire to''. But how quickly we can get there, whether we have the ingredients of success, I cannot really tell you. But definitely, it is our aspiration to be the No. 1 FMCG player in the country.[lxxii]

Thereafter, the company entered the intensely competitive personal care market by launching a super-premium range of products comprising shampoos, conditioners, shower gels, and soaps under the brand name Fiama Di Wills. The portfolio was expanded with the launch of Vivel and Superia range of soaps, shampoos, and skin care products targeting the premium and popular segments, respectively. However, unlike its foray into the foods space, success proved to be elusive. Deveshwar said:

> Brands are tough to build. But analysts and others, they want to quickly see what we have got now. I think we will make it. There is good chance for us to succeed… We are there to give all it all that we have got. And there is a huge amount of synergy that ITC as an institution can provide to these businesses. But we got to be patient…then it would pay the shareholders of this company for 200 years, 300 years.[lxxiii]

To strengthen the competitiveness of its offerings and enable the launch of innovative products, ITC set up a state-of-the-art Life Sciences & Technology Centre in Bengaluru. Until 2020, the company had filed over 900 patent applications. To build a competitive supply chain, the company started building integrated consumer goods manufacturing and logistics facilities across India. The 20 planned facilities, each of which required an investment of over ₹1500 crore, were to provide the company's products an edge in terms of scale, freshness, distribution, and cost efficiencies. In 2021, nine of the facilities were operational.

Outlining the company's strengths and providing "glimpses of the potential" in his last address as Chairman and CEO, Deveshwar set the company a revenue target of ₹100000 crore by 2030. He said:

> There are inspiring examples of national champions world-wide who enrich their economies in many dimensions bringing honour to their countries by their innovative excellence. Apple in the US, Samsung in Korea, Toyota in Japan…Can we in India not dream of building our own institutions that stand amongst the finest in the world? I believe we can, and we must. As a company deeply rooted in India's soil, ITC has passionately pursued its compelling vision to create an exemplary national institution of great value to our society…we have made remarkable progress. The best though is yet to come, and it is my hope that my hope that our dream in its fullness would be realized, sooner than later.

The task of realizing the dream was entrusted to his handpicked successor, Sanjiv Puri (see **Exhibit 13**). An ITC veteran, Puri was appointed as the CEO; Deveshwar continued as the non-Executive Chairman.

THE PURI YEARS (SINCE 2017)

Puri confronted significant challenges. On July 18, 2017, the company's share price had the single largest fall (15%) in 25 years. The launch of the new goods and services tax (GST) regime, which introduced an *ad valorem* component to the taxes wherein the state partakes in the price hikes, altered the structure of taxes on cigarettes and affected ITC, with its portfolio of premium products, adversely. The company's annual report said:[lxxiv]

> The legal cigarette industry, already reeling under the cumulative impact of steep increase in taxation over the previous five years in the pre-GST regime and intense regulatory pressures, was further impacted by a sharp increase of 13% in tax incidence on cigarettes (19% increase for the king-size filter segment) under the GST regime. Coupled with the increase in Excise Duty rates announced in the Union Budget 2017, this resulted in an incremental tax incidence of over 20% on cigarettes…While the legitimate cigarette industry

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> has declined steadily since 2010-11 at a compound annual rate of over 4% p.a., illegal cigarette volumes in contrast have grown at nearly 5% p.a. during the same period…according to Euromonitor International, India is now the 4th largest illegal cigarette market in the world.

The sustained increase in cigarettes taxes and its adverse impact on the company's profits, meant that Puri needed to accelerate the growth of the company's FMCG portfolio. ITC entered new categories such as dairy, juices, coffee, chocolates, spices, sea food, fruits, and vegetables. Even as he entered these highly competitive markets (some of them in the unorganized sector), Puri was aware that he would need to strike a balance between making investments in pursuing the company's bold aspirations and ensuring meaningful returns to the shareholders without excessively straining the company's cash flows. Fortunately, he could reach out to Deveshwar who had been doing this balancing act for the last two decades for counsel. However, Deveshwar's continued association, including his compensation, met with some controversy. The proxy advisory firm, Institutional Investor Advisory Services (IiAS), while appreciative of Deveshwar's contributions to the company recommended to the shareholders to vote against the compensation proposed to be paid to him as its non-executive chairman:

> At an aggregate remuneration estimated at ₹127.1 million, his (Deveshwar) remuneration is higher than 90% of CEO's and whole-time directors of the S&P BSE 500 companies. Although Yogi Deveshwar's proposed remuneration is in the same range as that of the CEO, Sanjiv Puri, IiAS estimates that, based on the past, his remuneration – in actual terms – will be higher than that of Sanjiv Puri… In making this decision, the board seems to remain beholden to Yogi Deveshwar. …IiAS believes that for succession planning to be effective, Sanjiv Puri must be allowed to step away from Yogi Deveshwar's shadows….. If the board does not have enough faith in Sanjiv Puri's competence and believes it needs Yogi Deveshwar's active presence, then perhaps Sanjiv Puri is not the right choice for a successor. If the board believes Sanjiv Puri is indeed the right successor, it must allow him a free rein.

Notwithstanding IiAS recommendation, the shareholders approved the proposed remuneration at the 2017 Annual General Meeting. ITC then filed a ₹1000 crore defamation suit against IiAS. The company clarified that the suit had been filed on the "basis of defamatory comments made against directors of the company in its report and not on the recommendations made to shareholders."[lxxv] It added:

> The imputation that Deveshwar's remuneration was not deserved and fixed on improper considerations is also without basis and patently false. Such appointment and remuneration is in keeping with current practices in the industry and the role envisaged for Deveshwar."[lxxvi]

Soon thereafter, BAT voted down a proposal on issuing employee stock options. ITC Board was disappointed that its proposal was "not approved primarily on account of the overseas shareholder who chose to vote against it".[lxxvii] Explaining its vote as a matter of fiduciary responsibility to its shareholders, BAT, which in the past had supported grant of stock options (see **Exhibit 14**) said, "We are supportive of plans to incentivize executives and employees of ITC with company shares as long as the incentivization is not done in a manner, which is dilutive to ITC shareholders".[lxxviii] However, Swadeshi Jagran Manch, a right-wing organization that promoted self-reliant economic policies, concluded otherwise. In a letter to the Reserve Bank of India, the country's central bank, it alleged that BAT's vote against ESOPs was part of its "plan to destabilize the Indian management to achieve its long-term objective of taking over the company and reconverting ITC into a tobacco company".[lxxix]

End of an era

In May 2019, the company's longest serving Chairman Deveshwar passed away. The ITC Board entrusted Puri with the responsibility of leading the company as its Chairman and Managing Director. Puri wrote:

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> It is a responsibility that I accept with humility and with a deep resolve to build on the outstanding legacy nurtured over the years, further strengthen, and build market leadership across all business segments, whilst reinforcing ITC's commitment to put 'nation first' always.[lxxx]

THE YEARS AHEAD

The Finance Minister of India did not impose any fresh levy on cigarettes in the 2021 annual budget. However, the spike in the company's shares that followed proved to be short-lived. Soon the company's share price was back to the pre-budget levels, in part impacted by the second wave of the devastating COVID pandemic that many feared would impede the company's progress toward the target of ₹1 lakh crore in revenues from its FMCG portfolio. Puri, however, remained confident: "We are committed to the target…. It may get delayed by two three years. But it is fine. We are not giving up on that target"[lxxxi]. However, others believed the challenges ahead for Puri may be less transient and more fundamental. They argued that the company's share traded at a discount to its historical averages because of the tobacco exclusion policies of many of the investment funds. These funds—labeled as ESG funds—whose assets under management had reportedly doubled, globally, in the last couple of years, did not make investments in companies that did not meet environmental, social, or governance criteria. The harmful health consequences of tobacco, which were at odds with the United Nation's Sustainable Development Goals, meant they did not invest in tobacco companies. In the last 3 years, the level of foreign portfolio investments in ITC declined from 19% to 13%. Critically, valuation multiples for tobacco companies had gone down from an average of 15*x* forward earnings to 9*x* forward earnings. Further, as ITC's profits from its cigarettes business declined, its valuation premium over its global peers narrowed (see **Exhibit 15**).

Closer home, questions were being raised about the appropriateness of public institutions like Life Insurance Corporation of India (LIC), owning stakes in ITC.[lxxxii] In an affidavit filed in response to a public interest litigation in the Bombay High Court, LIC that had over 15% stake in ITC, said:

> ITC had diversified into a host of other sectors such as packaging, agro-business, information technology, branded apparel, personal care and other FMCG (fast-moving consumer goods) products. Looking into positive yields and good returns to policyholders, the prudent decision to invest was taken.[lxxxiii]

V K Sharma, then Chairman, LIC defended its holdings in ITC; "It is not a war between smoker and non-smoker or a cigarette or non-cigarette company. LIC has to protect the capital because it is a company which is national.[lxxxiv]

ITC's 'national' credentials also found support from Swadeshi Jagran Manch. It argued that the dilution of the government's holdings through public institutions would lead to BAT taking interest again in the company and its ultimate takeover.

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Exhibit 1

ITC Limited – Financial Performance

	Haksar		Sapru		Chugh		Deveshwar				Puri		
(in ₹ crore)	**1969**	**1983**	**1984**	**1991**	**1992**	**1995**	**1996**	**2001**	**2011**	**2017**	**2018**	**2019**	**2020**
Total Income	126	766	698	2316	3017	4708	5188	8816	31423	57434	46460	48269	49821
PBITDA	8	43	31	132	222	524	584	1825	7972	16564	17671	19790	20918
PBT	7	35	25	121	206	402	452	1600	7268	15503	16439	18444	19299
PAT	4	24	15	78	115	262	261	1006	4988	10201	11223	12464	15136
Market Capitalization	-	-	-	896	9806	6921	5571	19987	140408	340673	311820	364388	211058
Dividends	2	6	5	36	58	134	61	270	4002	6945	7577	8498	12477
Debt to equity ratio		0.6	0.8	1.2	1.3	0.9	0.7	0.2	0.0	0.0	0.0	0.0	0.0
PBITDA Margin	6%	6%	4%	6%	7%	11%	11%	21%	25%	29%	38%	41%	42%
PAT Margin	3%	3%	2%	3%	4%	6%	5%	11%	16%	18%	24%	26%	30%
Dividend Payout Ratio	55%	25%	37%	46%	51%	51%	24%	27%	80%	68%	68%	68%	82%
Earnings per share (₹)*	-	-	-	-	-	-	-	-	4.33	8.40	9.20	10.17	12.31

*Only data from 2011 to 2020 is provided and it is adjusted for 1:1 bonus issue in 2011 and 1:2 bonus issue in 2017 to facilitate comparison.
Source: Company annual reports.

ITC Limited – Segment Performance

Segment	Share in Revenue				Share in EBITDA				Segment EBITDA / Segment Capital Employed				Segment EBIDTA / Segment Income			
	2005	**2010**	**2015**	**2020**	**2005**	**2010**	**2015**	**2020**	**2005**	**2010**	**2015**	**2020**	**2005**	**2010**	**2015**	**2020**
Cigarettes	75%	66%	61%	46%	88%	83%	85%	85%	185%	165%	192%	510%	23%	29%	37%	70%
FMCG*	4%	14%	18%	28%	-8%	-6%	0%	2%	-74%	-20%	1%	6%	-35%	-10%	0%	3%
Hotels	4%	3%	2%	4%	5%	4%	0%	1%	10%	9%	1%	3%	24%	24%	4%	9%
Papers	12%	12%	11%	13%	11%	12%	7%	7%	16%	18%	17%	22%	18%	21%	17%	21%
Agri-business	13%	15%	17%	22%	4%	7%	7%	5%	13%	28%	46%	27%	5%	11%	11%	8%

* FMCG includes Lifestyle Retail; Data Source: Company annual reports.

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Exhibit 2

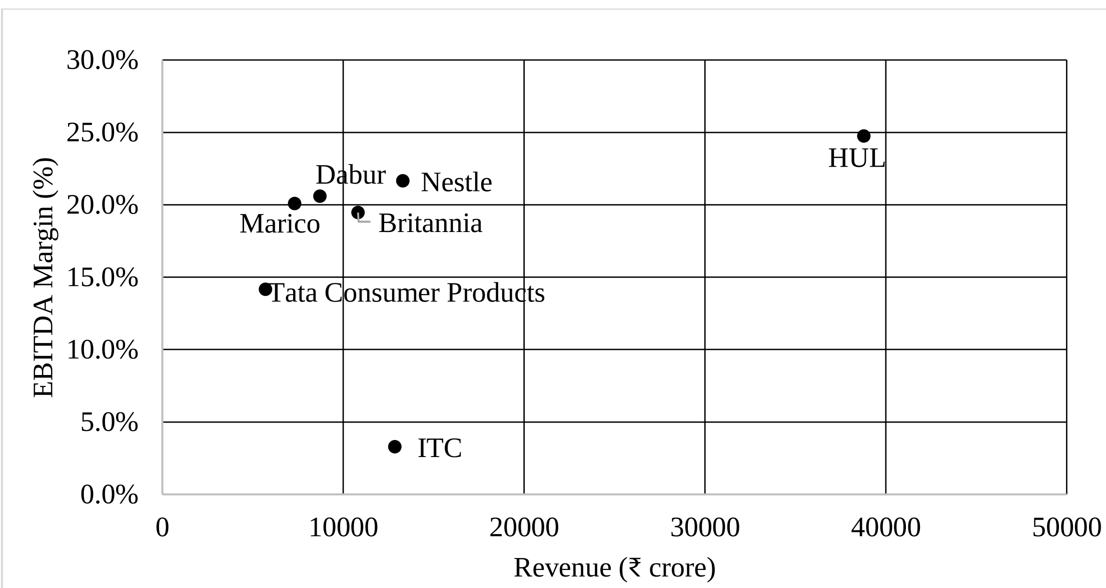
ITC – FMCG Margins

Category	EBITDA margin (%)
Atta	3-5%
Spices	15%
Salt	10-15%
Instant mixes	15%
Dairy products	2-10%
Biscuits, cookies, and cakes	15%
Chips and snacks	10-15%
Personal care	20-30%
Home care	20%
Notebooks and stationery	10-20%

Source: Morgan Stanley equity research report, March 2021.

Exhibit 3

FMCG Performance: ITC vs. Competition



Source: Company annual reports

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Exhibit 4

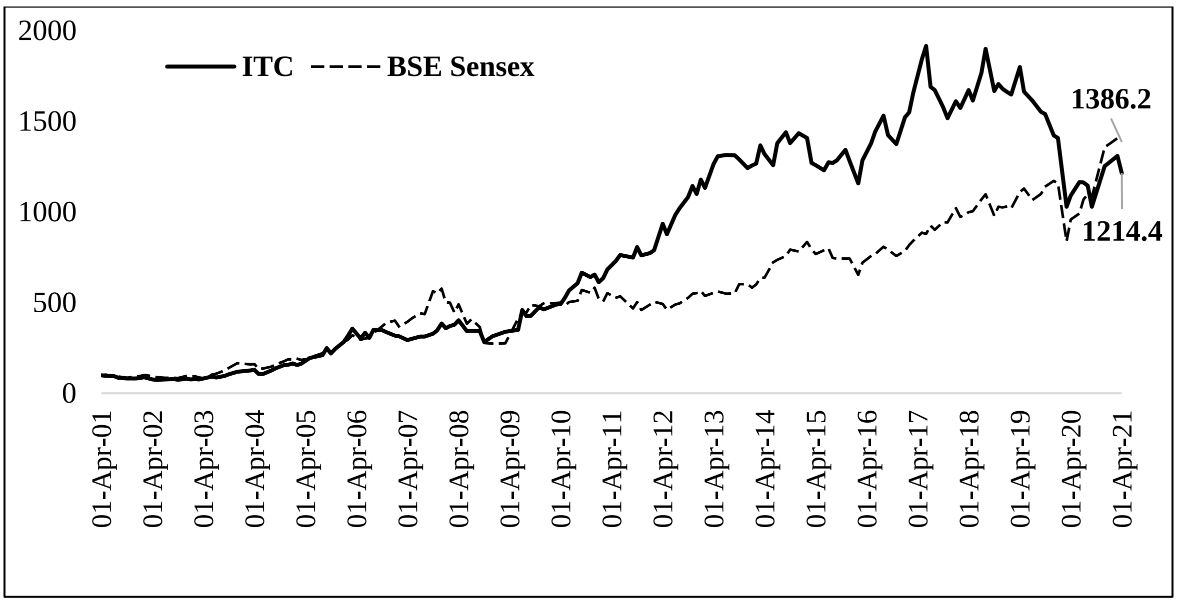
ITC – Capital Allocation and Performance

	Cumulative Capital Expenditure (in ₹ crore)			Cumulative EBITDA (in ₹ crore)		
Segment	**2006-2020**	**2011-2020**	**2016-2020**	**2006-2020**	**2011-2020**	**2016-2020**
Cigarettes	5658	3610	833	190030	171393	67011
FMCG (including Lifestyle Retail)	7729	6787	4904	-916	554	1072
Hotels	6700	5373	2692	3068	1515	643
Agri-business	1475	1126	488	8970	7934	4255
Paperboards, printing, and packaging	6955	4678	2328	12408	9994	5460

Source: Prowess

Exhibit 5

Stock Performance: ITC vs. BSE Sensex



Source: Prowess

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Exhibit 6

Relative Scores of Strategic Initiatives of FMCG Majors – FY 2015-2020

Company	Product Innovation	Distribution initiatives	Cost Efficiencies	Capital efficiencies
ITC	High	High	Medium	Low
HUL	High	Medium	High	High
Nestle	Medium	Medium	Medium	High
Dabur	High	Medium	Medium	Medium
Britannia	High	High	High	Medium
Colgate	Medium	High	Medium	High
Godrej Consumer	High	Medium	Medium	Medium
Marico	Medium	Low	High	Medium
Emami	Medium	High	Low	Low
Jubilant	High	High	High	High
UNSP	Low	Medium	High	High
Radico	Medium	Medium	Medium	Medium
Rank 1	ITC	Britannia	HUL	Nestle
Rank 2	HUL	Colgate	UNSP	UNSP
Rank 3	Godrej Consumer	Jubilant	Jubilant	Jubilant

Source: HDFC Securities research report, January 2021

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Exhibit 7

ITC – Key FMCG Categories

Category	Year of entry	Current category size (₹ crore)	ITC FY20 revenue (₹ crore)	Expected 10-year CAGR of category	Top ITC brands	ITC Rank	Key competitors
Atta	2003	12000	6000	10%	Aashirvaad	1	Pilsbury
Spices	2006	22000		12%	Aashirvaad		Tata Consumer, MDH, Everest, Badshah, Catch
Salt	2003	6700			Aashirvaad		Tata Consumer, Marico
Instant Mixes and RTE	2006	2200		18%	Aashirvaad		MTR, Marico
Dairy Products (ghee, milk)	2018	107100			Aashirvaad		Amul, Nestle
Biscuits, Cookies and Cakes	2005	38000	4000	9%	Sunfeast	3	Britannia, Parle, Mondelez
Chips and Snacks	2007	32000	2700	12%	Bingo	2	Haldiram, Pepsi, Balaji, Parle
Instant Noodles and Pasta	2005; 2011 (Pasta)	5000	1300	10%	Sunfeast Yipee!	2	Maggi, Wai Wai, Knorr
Chocolates and Mints	2002; 2017 (Premium)	11700	500		Candyman, Mint O, Gumon, Fabelle		Cadbury, Nestle
Juices and Beverage	2015	7900		13%	B Natural		Dabur, Pespi
Notebooks and Stationery	2004		1400		Classmate, Paperkraft	1	Navneet
Dairy beverages and milkshakes	2019	2700			Sunfeast Wonderz Milk		Amul, Nestle
Agarbattis and Safety Matches	2003	7400*	800	9%*	Mangaldeep, Aim, Homelite	2	Cycle
Soaps, Body wash and Handwash	2008	1100	500	18%	Vivel, Fiama di Wills		HUL, P&G, Wipro, Godrej
Perfumes and Deodorants	2005; 2013 (Deodorants)	3000		9%	Engage	2	Vini Chemicals, HUL
Antiseptic liquid, hand sanitizer and handwash	2016	1400	1000	20%	Savlon		Reckitt Benckiser

*Agarbattis only

Source: Morgan Stanley equity research report – March 2021; News reports.

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Exhibit 8a

ITC – Valuation

	Segment EBITDA (₹ crore)		Valuation Metric	Multiple (x)	Value (₹ crore)	Value per share (₹)
	FY20	FY23E				
Cigarettes	14853	12197	EV/EBITDA	15	182950	149
Hotels	158	432	EV/EBITDA	6	2595	2
Agri-business	789	1207	EV/EBITDA	6	7240	6
Paper	1305	1866	EV/EBITDA	6	11196	9
FMCG [segment revenue]	12844*	18331*	EV/Revenue	4	73325	60
Total EV of company					277306	
Net debt					(28809)	(24)
Target EV of equity					306115	
Target price per share						250

Source: Systematix Institutional Equities research report, February 2021, authors' analysis

Exhibit 8b

FMCG Valuation Multiples – 2020

Company	EV/Revenue multiple	Company	EV/Revenue multiple
ITC - FMCG	2.0	Dabur	8.4
HUL	9.0	Britannia	5.6

Source: HDFC Securities equity research reports, June – October 2020

Exhibit 9

ITC – Shareholding Pattern

Year	Foreign company holding (%)	Indian institutional holding (%)	Foreign institutional holding (%)
1954	93.4	0.05	N.A.
1970	74.7	10.05	N.A.
1974	60.0	18.6	N.A.
1976	39.9	28.3	N.A.
1985	32.8	34.2	N.A.
2001	32.8	35.43	11.03
2020	30.50	39.65	14.63

Source: Business World, December 14-27, 1994; Company annual reports. N.A.: Not applicable.

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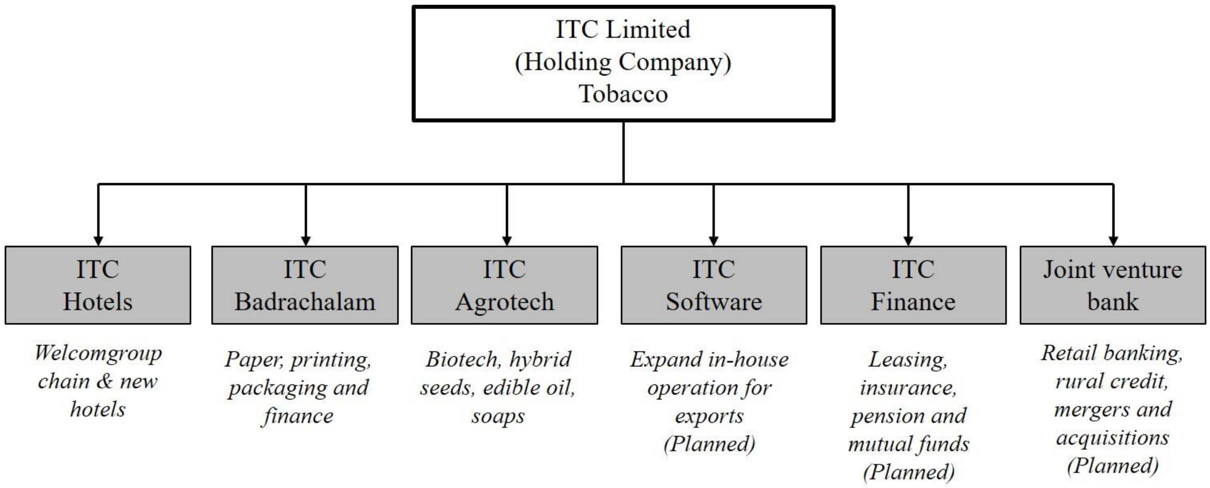
Exhibit 10

Sapru's Plan for ITC's Future/ ITC's Plan for the Future



Source: *India Today*, October 31, 1991.

Exhibit 11

Board Composition over the Years

Composition (No. of directors)	2006	2011	2015	2016	2017	2018	2019	2020
Non-Executive Chairman					1	1	1	
Executive Chairman	1	1	1	1				1
Executive Directors	3	3	3	3	3	3	4	3
BAT Representatives	2	2	1	1	1	1	1	1
Representatives of Financial Institutions (FI)	2	3	2	2	3	2	2	2
Non-Executive Directors – Former employee		1	1	1				
Independent Directors (ID)	4	6	8	8	7	6	6	7
Former representatives of FIs	2	4	3	3	2	1	1	1
Former bureaucrats	1	2	3	3	3	3	3	4
Former employees			1	1	1	1	1	1
Average Tenure of Directors on the board (years)	7.8	6.8	8.3	8	7.3	7.8	7.8	4.5
Average Tenure of IDs on the board (years)	9.8	9.8	8.6	8.4	9.3	8.7	9.7	5.9
Longest Tenure – Director (years)	22	27	31	32	33	34	35	15
Longest Tenure – ID (years)	11	16	18	19	20	21	22	15

Source: Company Annual Reports.

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Exhibit 12

ITC – Corporate Governance Framework

The 3-tier governance structure ensures that Strategic supervision (on behalf of the shareholders), being free from involvement in the task of strategic management of the Company, can be conducted by the Board with objectivity, thereby sharpening accountability of management. The Strategic management of the Company, uncluttered by the day-to-day tasks of executive management, remains focused and energized and Executive management of businesses assisted by respective Management / Executive Committee, free from collective strategic responsibilities for ITC as a whole, remains focused on enhancing the quality, efficiency, and effectiveness of the business to achieve best in class performance.

Board of Directors: The primary role of the Board is that of trusteeship to protect and enhance shareholder value through strategic supervision of ITC. As trustees, the Board ensures that the Company has clear goals aligned to shareholder value and its growth. The Board sets strategic goals and seeks accountability for their fulfilment. The Board also provides direction and exercises appropriate control to ensure that the Company is managed in a manner that fulfils stakeholders' aspirations and societal expectations.

Corporate Management Committee (CMC): The CMC is chaired by the Chairman of the Board and includes Executive Directors and senior managers of the company. The primary role of the CMC is *strategic management* of the company's businesses within Board approved direction / framework and realization of Company goals. The CMC also assesses the performance of the businesses and allocates resources and operates under the strategic supervision and control of the Board.

Divisional Management Committee: The DMC includes Divisional Chief Executive and senior managers of the Division. The primary role of the DMC is *executive management* of the business to realize tactical and strategic objectives in accordance with Board approved plan. The Executive Committee for Business Vertical within the Division is responsible to deliver comprehensive business results under the overall direction and supervision of the Divisional Chief Executive supported by the DMC.

Source: Company Annual Reports.

Exhibit 13

Sanjiv Puri at ITC

1986:	Joins ITC Limited.
2001:	Heads Surya Nepal, joint venture subsidiary of ITC in Nepal.
2006:	Managing Director, ITC Infotech, wholly owned subsidiary.
2009:	Divisional Chief Executive, India Tobacco Division,
2014:	President, FMCG business (including cigarettes).
2015:	Elevated to the Board, Executive Director
2016:	Appointed as Chief Operating Officer, the first for the company.
February 2017:	Appointed as Chief Executive Officer.
May 2019:	Appointed as Chairman and Chief Executive Officer.

Source: Company Annual Reports; News reports.

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Exhibit 14

Stock Options Awarded over the Years at ITC

	Position	Cumulative number of stock options granted during 2002-2020	Number of shares held as on March 31, 2020
YC Deveshwar	Chairman (1996-2017); Non-executive Chairman (2017-2019)	2516786	445950*
Sanjiv Puri	Chairman (since 2019); Executive Director (2016-2019)	1006850	62500
Nakul Anand	Executive Director (since 2011)	1238450	50000
Sumant Bhargavan	Executive Director (since 2019)	375303	443457
Rajiv Tandon	Executive Director (since 2016)	757692	151250
SB Mathur	Independent Director (since 2008); Non-executive Director (2006-2008) Non-executive Director (2006-2008)	60000@	170500
Anand Nayak	Independent Director (since 2020); Former ITC executive until 2016	311368@	929325

Source: Company Annual Reports. * March 31, 2019; @ The Companies Act stopped grant of options to independent directors after 2014.

Exhibit 15

ITC vs. Global Cigarette Majors

	12-month Forward P/E (approximate)		Cigarette EBIT growth		Expected revenue share of next generation products in 2030*
	2012	2020	2011-2015	2016-2020	
ITC	28	15	17.80%	4.50%	0%
BAT	15	7	6.60%	4.5%	16%
Philip Morris	15	14	7.30%	3.40%	>50%

Source: Morgan Stanley equity research report, March 2021.
*Next generation products include vapor, tobacco heating products, e-cigarettes and other oral products. In 2015, ITC launched EON, an e-cigarette. However, in 2019, the Government of India banned the manufacture and sale of e-cigarettes in the country.

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