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Books

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill
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ITC LIMITED - STRATEGIC FORAYS INTO THE FOODS BUSINESS

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ABSTRACT

After a period of recession, the Indian economy is recovering and is poised on the growth path. With the rapidly expanding Indian population, living standards are rising, food consumption is increasing and a diversification in diet of the Indian people can be seen. This presents before the country a set of challenges and opportunities and measures can be undertaken to modernize and diversify the agriculture to meet the increased domestic and international demand for a wide variety of food products. In light of this, large corporate houses like ITC Limited, consider it their duty to show a commitment towards the Indian consumers, which extends way beyond just the consumer delight. This Case analyzes ITC's diversification moves and its impact on the company's profitability. After the ban on Tobacco advertising in May 2004, ITC Limited ventured into Foods business and came out with a range of high quality biscuits using the brand name 'Sunfeast'. But having been known for tobacco products, selling processed food became difficult for ITC. This case analyzes the opportunities and threats faced by ITC and how it would overcome competition from existing giants like Britannia and Parle. Set in the background of current Indian economic scenario, this case raises key questions relating to how ITC would sustain multiple drivers of growth, matching internal capabilities with emerging market opportunities.

GLOBAL ECONOMY

As do all major sociological changes, transition in economies too evolves over a period of time. Over the past decade, almost every aspect of business has been reinvented. Operations have been changed completely owing to computerization and just-in-time supply chain management. There have been technological breakthroughs in accounting systems too. So, the economy as a whole witnessed a shift from manufacturing, offering standardized products and aiming at expansion of markets to achieve economies of scale, towards differentiated, customized and personalized information and productivity gains.

The emerging economy is marked with increase in demands for service and a consequent shift in business priorities from satisfying shareholders to delighting customers. This emerging economy is ought to be knowledge-based with focus on effectiveness in reaching, servicing and retaining consumers. Post-liberalization period, in India, of a decade or more is opening up new markets which has not only brought about new opportunities for export of goods but has also increased pressure on domestic industry to cope up with competition from imports.

Such economic reforms during the last decade have radically altered the business environment of India and posed a set of new challenges to the business firms in the country. Liberalization measures brought through the new industrial and trade policies – including liberalization of industrial licensing, curtailment of public sector, Foreign Exchange Regulatory Authority (FERA) liberalization, lowering of import tariffs, abolition of import licensing of certain categories, encouragement to foreign investment etc. aimed at integrating India's economy with the global economy. Access, on a global basis, to modern technology, capital resources and markets is now a more critical determinant of international competitiveness. No country can isolate itself completely from the forces being unleashed by a rapidly globalizing community of nations.

INDIAN ENVIRONMENT

India's inherent strength and comparative advantage lie in the presence of entrepreneurial acumen of the highest quality, an established scientific and industrial base, cheap skilled English speaking work force and a large domestic market. The relocation, by large transnational companies, of their manufacturing base to India and sourcing of products from here by other Fortune 500 companies is evidence of the bright future of the Indian industry. Unless India is proactive in responding to the imperatives of the changing environment, there is a very serious danger that it would be left far behind in today's race for the survival of the fittest.

It is significant to note that consumption of manufactured consumer goods is recognized as one of the most widely accepted measures of standard of living and quality of life. Manufacturing industry provides the driving force for stimulating rapid economic growth. The growth rate of the manufacturing industry normally surpasses that of the agriculture and service sectors. It is for this reason that industry is considered as backbone of the economy. It is in recognition of this special importance that raising industry's share in GDP is ranked as the foremost objective for this sector in the 10th Five Year Plan of the Indian Government.

IMPERATIVES OF AN EMERGING ECONOMY

Enterprises represent engines of economic growth in emerging economies such as India. Emerging economies are disadvantaged by the absence of adequate pool of internationally competitive enterprises. The ability of an enterprise to sustain value creation over time is crucially dependent upon its ability to continuously upgrade competitive capability, more so in the context of increasingly globalizing marketplace. Enterprises cannot however, become competitive in isolation in view of their linkages with the broader economy for supply of cost effective inputs, as well as for growth in demand for their output.

It is now universally acknowledged that no long-term economic growth agenda for India can be feasible without including in its fold the agricultural sector, which is home to 72 per cent of the population and 60 per cent of the nation's workforce. Indeed, while targeting a real growth of over 8 per cent in India's GDP, the planning commission observed that *"Agricultural development must be viewed as a core element of the plan since growth in this sector is likely to lead to the widest spread of benefits, especially to the rural poor including agricultural labour"*.

In this context, it is also well understood that reforms are crucial to the upliftment of the poor. Reforms need to embrace all aspects of socio-economic and political life of our society, including the creation of robust social, physical and institutional infrastructure, to engender productivity and competitiveness. The challenge thus lies in sustaining high rate of economic growth with equity over many years in order to convert the world's largest pool of economically disadvantaged people into viable consumers, thereby translating development into economic freedom.

FOOD PROCESSING INDUSTRY IN INDIA

The Ministry of Food Processing Industries is looking after the food processing industries in India and implementing policies and plans relating to the sector. The food processing sector includes sub-sectors like grain processing, fruits and vegetable products, milk products, meat and dairy products, fish and fish processing, beverages, aerated drinks, etc. The 10th Five Year Plan (FYP) has identified India's food processing as a sunrise industry which can play a significant role in increasing value addition in agricultural and horticultural produce, diversification and commercialization of agriculture, reduction in wastage of horticulture produce by increasing the processing level, generating new employment and enhancing export earnings.

The Vision 2020 document given by the Planning Commission of India under the chairmanship of Dr. S. P. Gupta observes a number of high employment potential sectors including commercial agriculture, agro-industry and agri-business. The World Bank estimates that *"India will become the fourth largest economy in the world by 2020. India should accept this both as a challenge and opportunity to modernize and diversify its agriculture to meet the increased domestic and international demand for a wide variety of food products"*.

Tapping the full potential of Indian agriculture to meet the rising domestic demand and to take advantage of liberalization of international trade requires greater investment in research and involvement of private sector in providing technology, investment and organizational expertise. The document also emphasizes the development of downstream processing, packaging and distribution activities as India processes less than 2 per cent of its fruits and vegetable products and 15 per cent of milk products, as compared to with 70 to 80 per cent in countries like Brazil, Malaysia and Philippines. The rural workforce hence will have abundant farm and non-farm employment opportunities, which in turn will stimulate demand for consumer goods and services.

A news item appearing in Hindustan Times dated 21st Oct, 2004, quoting a report by the Press Trust of India (PTI), pointed out that the magnitude of wastage of farm products in India is around Rs. 520,000 million each year. This they said was more than the entire fruit consumption of the United Kingdom, hampering the growth of the country's food industry. They observed,

"The cause of this loss is due to lack of storage and logistics infrastructure. But it is a fact that despite the low volumes, the Indian food processing industry still ranks fifth in size in the country, representing 6.3 per cent of the GDP. It accounts for 13 per cent of the country's exports and 6 per cent of the total industrial investment".

India is in the midst of transforming an agrarian economy into a modern multidimensional economic enterprise. The emerging global scenario will open up greater opportunities for countries with a surplus of well educated, highly skilled labour that can provide an attractive commercial environment for the out sourcing of manufacturing and service businesses. As per the 10th FYP, a highly competitive environment is rapidly emerging, driven by economic and social aspirations on the one hand and external conditions predominantly World Trade Organization (WTO) related market forces on the other.

Other important factors emphasizing the need for continuous improvements in productivity and efficiency in the allocation of resources are: consumer demand for enhanced value in terms of cost and quality; consumer tastes and preferences shifting perceptibly in favour of environment-friendly products; and regulatory pressures for sustainable industrial processes and practices based on life cycle analysis of the impact on the environment.

ROLE OF ENTERPRISES IN PARTNERED GROWTH

In the 92nd Annual General Meeting of ITC Limited, Mr. Y. C. Deveshwar*, said that research by Michael Porter contained in the Global Competitiveness Report 2002-2003 places equal importance on both macroeconomic and microeconomic factors in creating conditions for improved national productivity and competitiveness. He further said *"The vitality of companies operating in an economy makes the decisive difference in the capacity of a country to create wealth. It further upgrades the basis of competition from comparative factor advantages to innovative capability that enables the highest order of value capture"*.

While all successful corporate effort creates value, the degree of value retention within our economy is determined by the extent to which value chains are located in India. Location of manufacturing basis outside the country to service the Indian market would imply a much lower order of value capture for the domestic economy specific to that activity as compared to that arising from the larger sections of the value chain being based in the country.

The degree of value retention within India is often a result of strategic choices made by companies. Companies with the mindset of maximizing financial returns to shareholders above all else would source globally from locations where quality and cost are currently most competitive, and manufacture where it is most efficient to do so in servicing target markets to maximize profits. Such an approach carries serious implications for emerging economies. An Indian enterprise should, as its fundamental orientation, favour value chains within India by supporting their competitiveness wherever feasible. Therefore, it is crucial to support the growth and vitality of Indian enterprises that stand out by their approach and commitment to the Indian economy rather than merely by the source of their capital. It is in this context that ITC Ltd. has been chosen to discuss the implications of strategic choices of Indian companies towards the Indian economy.

ITC Limited – Background

ITC is one of India's foremost private sector companies with a turnover of over US $ 5.1 Billion. ITC is rated among the World's Best Big Companies, Asia's 'Fab 50' and the World's Most Reputable Companies by Forbes magazine, among India's Most Respected Companies by Business World and among India's Most Valuable Companies by Business Today. ITC ranks among India's `10 Most Valuable (Company) Brands',

* Yogesh Chander Deveshwar is the Chairman of ITC Ltd. since January 1, 1996. Prior to this he was Chairman and MD, Air India, the national carrier of India.

in a study conducted by Brand Finance and published by the Economic Times. ITC also ranks among Asia's 50 best performing companies compiled by Business Week.

While ITC is an outstanding market leader in its traditional business of cigarettes, success in other diversified businesses like hotels, paperboards, packaging and agro-exports further strengthened the move of diversification into businesses of Branded Apparels, Greeting Gifting & Stationery and Packaged Foods & Confectionery. ITC's diversified status originates from its corporate strategy aimed at creating multiple drivers of growth anchored on its time-tested core competencies, unmatched distribution reach, superior brand building capabilities and effective supply chain management. ITC's independence in diversification is worth noting. Over the past few years, ITC has made the hard choice of going right out of its traditional orbit into totally unfamiliar course and has displayed its vision by not sticking to the comfortable soft option of more vertical than horizontal diversification.

ITC Limited's cigarette business is under a threat from various sides. Growing awareness on the ill effects of smoking and Government imposed ban on tobacco advertisement & use of the product in public places, is leading to stagnation in sales. But with a cash generation close to Rs.16000 million a year, the company has diversified into newer areas like Readymade Garments, Greeting Gifting & Stationery and Foods Businesses that will widen the overall business portfolio and reduce the dependence on the core business of cigarettes. More so it will also enable the company to retain its large customer base.

ITC'S DIVERSIFICATION MOVE - FMCG

Within the varying businesses of ITC, Foods have special emphasis because of the huge growth potential. The Indian market for foods is estimated to be Rs. 5,000,000 million annually. India being an agrarian country has a bright future for the food industry. Furthermore, population growth and improvement in customer's spending ability is also marking its growth. The increasing trend towards nuclear families, single working people, bachelorhood etc. is leading to a high rise in the consumption of packaged food. As the disposable income goes up, standard of life improves and consumers become more and more discerning in terms of quality and hygiene. Besides, packaged foods also ensure hygiene, nutrition and convenience. Since in this category, the share of branded players is small, therefore the scope for better and more value added products is high. Increased media exposure is also ushering in a revolution in consumer behaviour thereby presenting exciting growth opportunities for companies such as ITC. While the FMCG industry in recent times has been dominated by sluggish top line growth, pressure on margins and price-led competition, the broader underlying trends indicate the nature of an opportunity.

First, the composition of India's private final consumption expenditure (PFCE) reflects a secular shift away from basic items of expenditure towards value added products and services. For example, within the foods basket, while the share of basic cereals and pulses is declining, the share of non-staple foods continues to grow, accounting for about 72 per cent of total food consumption. Total expenditure on foods continues to grow, posting real annual increase of 3.9 per cent since 2000.

Secondly, the FMCG sector over the years thrived on expansion of distribution, both in urban and rural markets, leading to fears of saturation. It is estimated that rural markets alone have 3.6 million retail outlets, roughly 1 per 200 people. Yet there is no organized marketing and distribution in 87 per cent of India's villages, which are home to 50 per cent of the rural population. Low population density and poor infrastructure pose daunting 'last mile challenges', rendering costs of customer acquisition prohibitively expensive. This last mile represents a significant opportunity for those who can defray logistics costs efficiently over multiple transactions.

Thirdly, changing demographics indicate an increasingly young consuming class. Six out of ten households have a post-liberalization child and nearly 60 per cent of the population is in the age group 15-59. This trend has significant implications on lifestyle aspirations, consumption capability and consequently for the value propositions of FMCG offers.

Fourthly, the compound annual growth of 3.2 per cent over the last five years in per capita income is unevenly spread across income segments. The bulk of the rural population constituting the bottom of the economic pyramid represents a vast potential consumer base. Leveraging this potential opportunity calls not only for appropriate and urgent agricultural reforms, but also unique business models anchored on low cost demand fulfillment capability.

ITC, with diverse competencies residing in its various businesses, is ideally positioned to leverage the significant growth opportunity inherent in these broader trends. It is the strategic intent of ITC to secure long-term growth competencies to create new engines of growth. ITC's integrated group research and development centre[*] at Bangalore and the state-of-the art Master Design Facility at Gurgaon provide cutting edge capability in product development and innovation thereby creating a franchise in the minds of consumers as providers of world-class value added products. Each category within this Business Segment of ITC also serves to widen and deepen the FMCG trade marketing and distribution capability, which already services about 1.5 million convenience outlets.

Further, the pioneering e-choupal[*] model is engaged in addressing the issues of the last mile in rural India, thereby providing the foundation for unmatched delivery capability that can encompass not only FMCG but also a host of other products and services. Towards this end, the company continues to invest in people systems and proprietary processes and protocols. It is also engaged in creating low cost demand fulfillment capacity by upgrading capabilities across value chains. This business model envisages retaining critical elements of each value chain in-house while manufacture is outsourced largely to small and medium enterprises (SMEs)[**]. Such a model enables ITC to draw upon key

[*] According to a press release in March 2004, ITC claims to have invested Rs. 100 million in the R&D centre located in Bangalore. It may be noted that all operations concerned with the Foods division of the company are undertaken at their Bangalore centre.

[*] ITC is currently executing a trailblazing internet-based intervention, which has the potential to contribute significantly to the transformation of rural India. This unique intervention christened 'e-choupal' carries the potential to address several issues confronting the competitiveness of the Indian agro value chain. 'e-choupal' delivers to the smallest of farmers, real-time information and customized knowledge in the local language to improve their decision making ability. It thereby facilitates the alignment of farm output to market demands.

[**] It may be noted that ITC has ruled out the possibility of opening its own manufacturing unit in the near future. They have restricted themselves in training the people in the contract-manufacturing unit so that there is a consistent quality production. The Foods division of the company is concentrating mainly on strengthening its distribution network so as to make their products available in all corners of the country.

internal competencies including agro-sourcing skills, cuisine knowledge and services expertise, paperboard and packaging domain knowledge, state-of-the-art IT services capability and the well known trade marketing and distribution strength to enhance the competitiveness of the entire value chain.

This strategic approach enabled ITC to make rapid progress towards establishing market standing in each of the chosen categories. Dramatic shift in key economic indicators over the past 10 years are elaborated in Table 1. It can be seen that the gross turnover has increased 4 times in the last 10 years thereby indicating the growing impact of ITC on the people and market.

Table 1: Key Economic Indicators

Key Economic Indicators	1995-96	2007-08
	Rs. In millions	
Gross Turnover	51150	213560
Market Capitalization	55710	777650*
Profit Before Tax	4520	45720
Profit After Tax	2610	31200
EPS - Basic (Rs.)	7.1	82.9
Net Worth	11210	120580
Book Value per Share (Rs.)	30	320
Capital Employed	18860	128170
ROCE per cent	2.84	3.57

* Market Capitalization as on 31/3/08

DIVERSIFICATION INTO THE FOODS BUSINESS

ITC believes that leadership in Foods business requires a keen understanding of the supply chain for agricultural produce. Claiming to have formed a close business relationship with the farming community in India over the last 90 years, ITC intends to leverage this network in sourcing best quality agricultural produce for its Foods business.

The Foods business is today represented in 4 categories in the market. These are 1) Ready to Eat Foods 2) Staples 3) Confectionery and 4) Snack Foods. ITC made its entry into the branded & packaged Foods business in August 2001 with the launch of the brand 'Kitchens of India'*. A more

* ITC ventured into the Foods business with the launch of the brand 'Kitchens of India'. These packaged food dishes were targeted at the top end of consumers. Priced initially at Rs. 150/- for a 450 gm tin and subsequently at Rs. 68 for a 285 gm pouch, one is able to manage around four servings with the former and two servings with the latter.

broad-based entry was made in June 2002 with brand launches in Staples, Confectionery and Snack Foods segments. The company claims that all products of its Foods business available in the market today have been crafted based on consumer insights developed through extensive market research. Kitchens of India bring to the Indian consumer exquisite gourmet Indian cuisine, capturing the pedigree and expertise of ITC Hotels' Master Chefs.

AASHIRWAD READY MEALS

'Aashirwad Ready Meals' label was launched in Hyderabad on 25th June 2003. This is a new range of ITC's ready-to-eat meal. Seven products are currently available in this category. Prices start at Rs. 35/- for a 285 gm pouch. Its unique packaging ensures freshness without the use of preservatives. This category of products is available in all grocery stores selling ready-to-eat products.

STAPLES

ITC entered the branded Atta[*] market with the launch of 'Aashirwad Atta' in Jaipur and Chandigarh on 26th May 2002. The company aims to use the sourcing strength of its e-choupals to deliver the freshly ground Atta to its consumers. Premium quality Atta made from the best wheat in India is also available as 'Ashirvaad Select Atta'. 'Popular Atta', a widely used volume driven category is offered in packs of 5 kg and 10kg priced at Rs. 70/- and Rs. 135/- respectively. The share of branded players is small in this category being around 2 per cent. 'Aashirvaad Atta' is selling around 8,000 tonnes a month and is the leading player in the branded Atta category.
ITC also launched its branded packaged salt under the brand name 'Aashirvaad Salt' on 26th March 2003. This product too is available in grocery stores around the country. The company has also come out with a range of cooking pastes under its ready-to-eat gourmet cuisine brand 'Kitchens of India' and ready meal 'Aashirvaad' brand as well.

CONFECTIONERY

ITC has two brands in the confectionery segment – 'Mint-O' and 'Candyman'. 'Mint-O' was acquired from Candico in March 2002 which is a company dealing in confectionery. ITC relaunched the compressed mint product Mint-O with new and improved product and packaging. Even now, apart from dealing in its brands under the flagship of Candico, the company continues to manufacture Mint-O for ITC.
Mint-O is the first mint in India to be also available in orange and lemon flavours besides the regular mint flavour. The product is available in two sizes – rolls of 20s and 6s. As per Mr. Ravi Naware[*], though the market of compressed mint is small (about Rs. 100 crore), ITC has already captured about one third of its share by re-launching Mint-O in three flavours. The company now has recently launched Mint-O Fresh, in two variants viz. Clove and Eucalyptus in cough lozenges segment. Mint-O is currently available in all major markets in India.
Candyman Butterscotch Licks and Orange Licks were launched in December 2003 and are now available in markets across the country. This marked ITC's entry into the deposited candy market. In addition, Candyman éclairs and Candyman hard-boiled candies viz., Wild Banana, Mango Delight, Orange Josh and Pineapple Punch are also available.

SNACK FOOD

ITC made its entry into the snack foods segment with 'Bischips' – thin baked wafers made from wheat, but it did not prove to be a success. Then the company entered into the branded biscuits market on 28th July 2003 with the launch of the 'Sunfeast' range of biscuits in Kolkatta and Hyderabad. The initial range of offerings in the 'Glucose', 'Marie' and 'Cream' segments provides both basic and value added options to the consumers. Two innovations in its initial range of offerings, viz. 'Orange Marie' and 'Butterscotch Cream', have been introduced for the first time in the Indian market after extensive sampling across 14,000 consumers.
ITC has leveraged its proven strength in retailing biscuits especially through the panwallah segment. While the grocery stores were the main part of retail rollout plan, growth to ITC has also come from the neighbourhood convenience stores and panwallahs[*] who were familiar with the company and its brands. The biscuits now are available across the country even through such outlets. ITC is banking upon the idea that its cigarettes consuming class, which is a loyal base, will try out the new range of biscuits thereby promoting sales of the organization. Much is not being said about it but the company hopes that it will smoothen out the journey towards major market shareholder in this segment.
Under the flagship brand 'Sunfeast', in September 2007, ITC launched a new range of biscuits fortified with vitamins and calcium called the 'Fit Kit'. Endorsed by Sachin Tendulkar, the famous Indian cricketer, these biscuits are a rage with children. Marking the company's forays into the evolving snacks category, ITC came out with its mouth-watering range of potato chips called 'Bingo'. Bingo was strategically timed around the World Cup to leverage the tremendous popularity that such leisure and cocktail snacks would find among cricket lovers in the country.

ITC LIMITED: OPPORTUNITIES AND CHALLENGES

Mr. Naware in a press conference declared that the Foods business intends to break even by the year 2008. It also wished to complete all its range in the Biscuits segment by the year 2005. Once they are able to bring out all the variants in the Foods business under all the brands as their respective competitors, the business would start moving towards establishing a large market share in each category. As of now, ITC in its Foods business is a market leader only in the 'Atta' segment. ITC however is still continuing with bringing out new variants of biscuits targeting different consumer tastes and preferences.
The ready-to-eat market is captured mostly by MTR with 70 per cent market share. Small players like Tasty Bites Eatables Limited (TBEL); a Pune based company also offers some competition. The Rs. 200 million company, (where 80 per cent of its earnings come from exports) has successfully captured a number of markets in the Eastern part of the country. TBEL now intends to launch a number of ready-to-eat ranges in the northern India. Confectionery industry is dominated by Perfetti, with Nutrine, Cadbury, Nestle, Parry's, Ravalgaon etc. being other major

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[*] Wheat Flour
[*] Mr. Ravi Naware is CEO, Foods Division of ITC.
[*] Panwallahs are primarily non-grocery outlets (mostly kiosks) dealing in sale of cigarettes, tobacco and other convenience products like matches, confectionery etc.

players. Perfetti's 'Alpenliebe' and Nestle's 'Polo' are a force to reckon with. ITC's Candyman has a long way to go before it can build its image in the minds of its consumer's vis-à-vis its competitors.

The Biscuits market in India amounts to Rs. 45,000 milion out of which roughly 27,000 million belongs to the organized sector. Mr. Naware at the launch of the 'Sunfeast' range of Biscuits said that the biscuits market had risen from 5 per cent to 12 per cent over the last year. Two major players viz., Britannia and Parle that accounts for over 80 per cent of market currently dominate the organized Biscuit market. ITC hopes to come up with as many Stock Keeping Units (SKUs) as its competitors by March 2005. The company at present is at the third rank and hopes to become market leader by bringing out innovative and value added products for all segments of society.

ITC attributes its success to its distribution network, ability in brand building and identifying quality outsourcing opportunities. The company says that it is currently witnessing a situation of demand outstripping supply of Food items. It is considering the adoption of the partnership route in a big way (as opposed to only contract manufacturing) to augment all-India supplies. Maintaining consistent quality at lower prices while keeping overall investments down is becoming a formidable challenge for the company.

On the other hand, the Indian government is opening up the food-processing sector and has announced a tax holiday for five years and a reduced rate thereafter on fruits and vegetables. Tax incidence on dairy machinery, meat products and other processed foods has also been reduced. This is tempting foreign countries to come invest in this sector.

In the emerging economy of India, with opportunities and challenges waiting for companies big and small alike, to make strategic moves, it is imperative that the choices and decisions of these companies be made after due appraisal of the external and internal environment. Keeping in mind the ever-ongoing threats to their business, ITC is in a dilemma as to what their future line of action should be – short-term as well as long-term. How should ITC develop its future diversification strategy, offer value-added products at reasonable prices and still be able to contribute effectively towards shareholder wealth? How should the organization manage multiple businesses and blend core competencies thus leveraging ITC's umbrella strengths to create new avenues for growth? The Company simultaneously wants to increase its presence in the market and also not compromise on its foremost objective of addressing the needs of rural India as ITC believes that it is imperative to ensure that India's economic growth is inclusive, embracing its villages, so as to free millions of disadvantaged citizens from the indignity of poverty.

EXHIBIT 1: MILESTONES

2001: Entry into the Foods Business with launch of 'Kitchens of India'

2002: 'Aashirvaad' Atta rolled out, 'mint-o' trademark acquired, re-launched in lemon and mint flavours; 'Candyman' added to confectionery range

2003: Integrated Group Research & Development Centre established; 'Aashirvaad' salt introduced; 'Candyman' range expanded to deposited candies and éclairs; 'Sunfeast' biscuits launched; 'Aashirvaad ReadyMeals' offered; 'mint-o' in lemon mint flavours

2004: 'Kitchens of India' extended to cooking pastes; Mint-O Fresh launched

2005: Sunfeast breaks Guinness book of World Records for Simultaneous Plantations

2006: Shah Rukh Khan and Sachin Tendulkar signed as Brand Ambassadors for Sunfeast biscuits

2007: ITC launches 'Bingo' chips range. Also, introduce organic spices in the market

EXHIBIT 2: STRATEGY OF ITC TO MANAGE DIVERSITY OF PORTFOLIO

Formal 3-tiered governance structure:

- **Board of Directors :**
- Comprising executive (4) and non-executive directors (11)
- Strategic supervision
- **Corporate Management Committee :**
- Comprising executive directors and senior managers
- Strategic management
- **Divisional Chief Executive & Divisional Management Committee :**
- Executive management

EXHIBIT 3: OPERATING RESULTS 1998 – 2007

(Rs. in Millions)

Year Ending 31st March	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GROSS INCOME	69237.5	77009.6	80693.7	88271.1	99824.6	111944.7	120399.2	135853.9	165105.1	**198415.4**
Excise Duties etc.	36939.4	40632.5	41338.9	44745.2	47808.6	51591.0	53446.0	57101.3	64339.0	**71357.5**
Net Income	32298.1	36377.1	39354.8	43525.9	52016.0	60353.7	66953.2	78752.6	100766.1	**127057.9**
Cost of Sales	22714.6	24433.0	24754.5	25164.4	31559.6	37120.0	41098.5	48468.9	64631.5	**84128.9**
PBDIT	9583.5	11944.1	14600.3	18361.5	20456.4	23233.7	25854.7	30283.7	36134.6	**42929.0**
PBDT	8773.3	10403.2	13474.8	17402.4	19787.1	22935.3	25606.8	29859.4	36015.3	**42896.2**
Depreciation	858.5	1022.9	1185.3	1399.4	1984.5	2373.4	2416.2	3128.7	3323.4	**3629.2**
PBIT	8725.0	10921.2	13415.0	16962.1	18471.9	20860.3	23438.5	27155.0	32811.2	**39299.8**
PROFIT BEFORE TAX	7914.8	9380.3	12289.5	16003.0	17802.6	20561.9	23190.6	26730.7	32691.9	**39267.0**
Tax	2652.8	3146.1	4365.1	5940.4	5905.4	6848.4	7262.1	8360.0	9888.2	**12267.3**
PROFIT AFTER TAX BEFORE EXCEPTIONAL ITEMS	5262.0	6234.2	7924.4	10062.6	11897.2	13713.5	15928.5	18370.7	22803.7	**26999.7**
EXCEPTIONAL ITEMS (NET OF	-	-	-	-	-	-	-	3543.3	(450.2)	**-**

TAX)										
PROFIT AFTER TAXATION	5262.0	6324.2	7924.4	10062.6	11897.2	13713.5	15928.5	21914.0	22353.5	**26999.7**
Dividends*	1214.8	1498.3	2245.5	2704.5	3341.4	4188.4	5588.3	8817.0	11347.0	**13645.0**
Retained Profits	4047.2	4735.9	5678.9	7358.1	8555.8	9525.1	10340.2	13097.0	11006.5	**13354.7**
Earnings Per Share on profit after tax before exceptional items										
Basic (Rs.)**	14.3	16.9	21.5	27.3	32.0	36.9	42.9	49.1	60.8	**71.9**
Adjusted @ (Rs.)	68.6	81.3	103.3	131.2	155.1	178.8	207.7	239.5	297.3	**352.1**
Earnings Per Share on profit after taxation										
Basic (Rs.)**	14.3	16.9	21.5	27.3	32.3	37.3	42.9	58.5	59.6	**71.9**
Adjusted @ (Rs.)	68.6	81.3	103.3	131.2	155.1	178.8	207.7	285.7	291.5	**352.1**
Dividend Per Share (Rs.)**	03.0	03.7	05.0	06.7	09.0	10.0	13.3	20.7	26.5	**31.0**
Market Capitalization ***	175230	236330	180380	199870	172430	155810	257930	334330	732070	**565830**
Foreign Exchange Earnings	7590.8	6495.5	6877.0	6971.3	9475.7	12940.0	10775.1	12686.5	17935.1	**22832.1**

* Including Income Tax on Dividend (except 2002)
** Includes adjustment for 1:10 Stock split and 1:2 Bonus Issue
*** Based on year-end closing prices, quoted on the Bombay Stock Exchange.
@ Includes adjustment for
- 1992 - 3:5 Bonus Issue
- 1995 - Conversion of warrants and Bonus Issue of 1 : 1 on total shares

- 2003 - 2,09,69,820 Ordinary Shares of Re. 1.00 each, fully paid, issued pursuant to Amalgamation of erstwhile ITC Bhadrachalam Paperboards Limited with the Company.
- 2006 - 1,21,27,470 Ordinary Shares of Re. 1.00 each, fully paid, to be issued pursuant to Amalgamation of erstwhile ITC Hotels Limited and Ansal Hotels Limited with the Company.
  - 1:2 Bonus Issue

EXHIBIT 4: CONSOLIDATED BALANCE SHEET

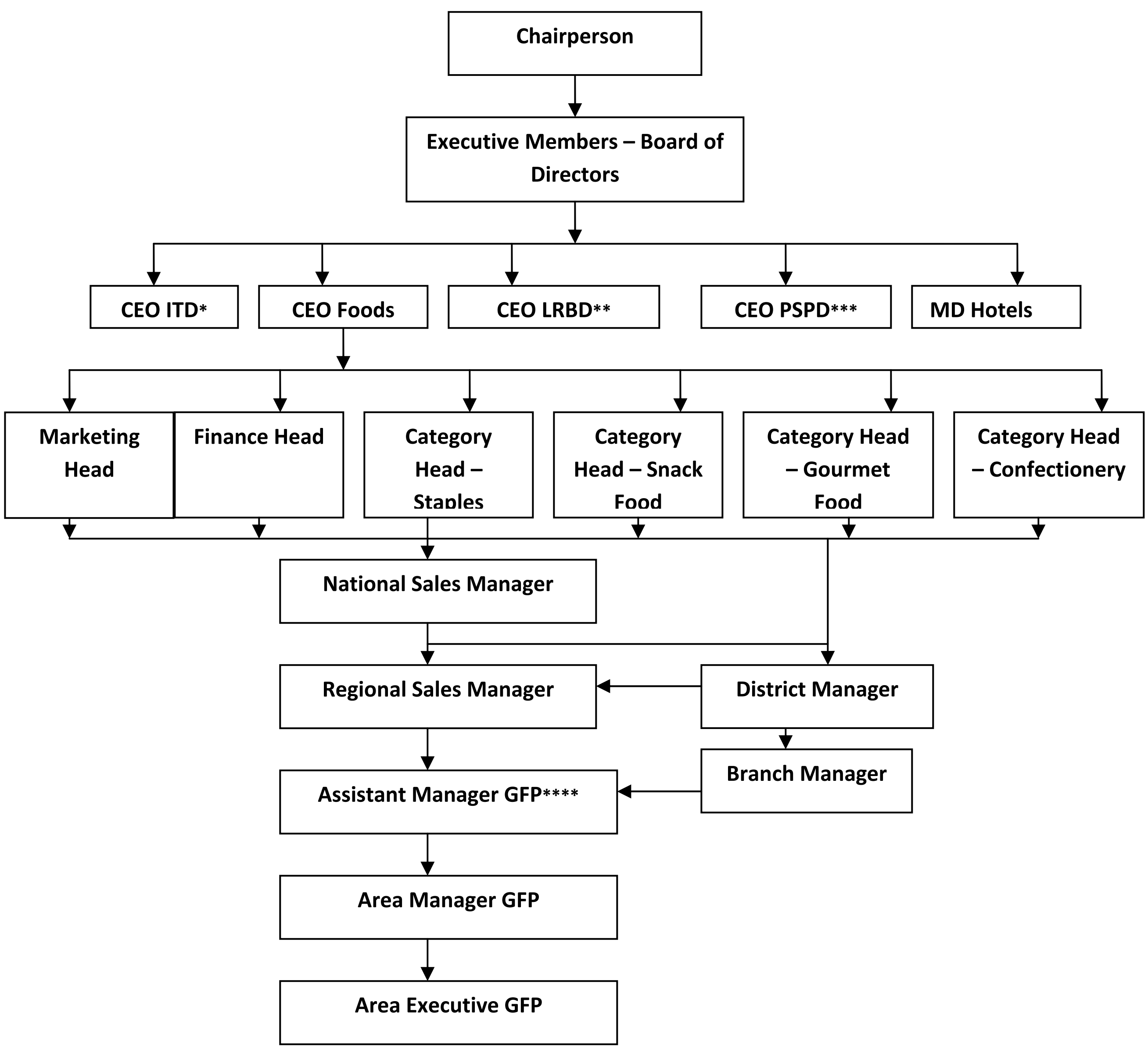
Consolidated Balance Sheet as at 31st March, 2007

	As At 31st March, 2007 (Rs. In Millions)		As At 31st March, 2006 (Rs. In Millions)	
I. SOURCES OF FUNDS				
1. Shareholders' Funds				
a) Capital	3762.2		3755.2	
c) Reserves & Surplus	102703.6	106465.8	88459.4	92214.6
2. Minority Interests		1075.8		817.5
3. Loan Funds				
a) Secured Loans	608.0		528.6	
b) Unsecured Loans	1401.0	2009.0	938.2	1466.8
4. Deferred Tax – Net		4712.7		3255.0
Total		**114263.3**		**97753.9**
II. APPLICATION OF FUNDS				
1. Fixed Assets				
a) Gross Block	77951.7		68625.9	

b) Less: Depreciation	26865.5		23392.8	
c) Net Block	51086.2		45233.1	
d) Capital Work-in-Progress	8760.9		2466.1	
	59847.1		47699.2	
e) Less: Provision for assets given on lease	87.1	59760.0	87.1	47612.1
2. Investments		25058.9		29981.0
3. Current Assets, Loans and Advances				
a) Inventories	39346.7		31154.3	
b) Sundry Debtors	7330.4		6351.9	
c) Cash and Bank Balances	10865.0		9777.7	
d) Other Current Assets	1938.2		1568.5	
e) Loans and Advances	9865.2		7702.7	
	69345.5		56555.1	
Less :				
4. Current Liabilities and Provisions				
a) Liabilities	25486.5		22820.6	
b) Provisions	14419.9		13580.0	
	39906.4		36400.6	
Net Current Assets		29439.1		20154.5
5. Miscellaneous Expenditure		5.3		6.3

(To the extent not written off or adjusted)		
[See Schedule 19 (ix)]		
Total	114263.3	97753.9

EXHIBIT 5: ORGANIZATIONAL CHART OF ITC LIMITED



*** India Tobacco division of ITC Limited**
**** Lifestyle Retail Business Division**
***** Packaging and Specialty Paper Division**
****** Grocery Focus Products**

LIST OF REFERENCES

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Tenth Five Year Plan (2002-2007) – Industry Sector, Chapter 7, **(http://planningcommission.nic.in)**

Website: **www.itcportal.com**

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Editor