

Illicit Industry Flourishing Due to Sharp Increase in Tax on Cigarettes: ITC MD

ET Q&A

ITC, India's biggest consumer products company by market value, said while it is

witnessing some uptake in consumer demand, it is difficult to assess the exact pace of growth, given the base disruptions over the past two years. The company has been trying to accelerate growth in consumer packaged goods and hospitality but it has no plans to spin off these segments into separate listed entities, **Sanjiv Puri**, managing director of ITC told **Sagar Malviya** in an exclusive interaction. ITC's cigarette business accounts for nearly 85% of the company's EBIT and has been funding the growth of other businesses. However, margins should head north as core FMCG brands gain in size. Edited excerpts:

Can ITC's non-cigarette business be spun off into a separate entity?

ITC is a multi-business conglomerate with 13 different businesses, each led by a chief executive. Whether all the businesses are structured under one company or structured as separate entities depends on an assessment on what creates larger value for stakeholders. Given the synergies among ITC's businesses and the institutio-

nal capabilities as well as assets that can be leveraged by all businesses, the current structure has delivered appreciable outcomes for all stakeholders. In fact, we have successfully created new engines of growth by synergising institutional capabilities that are resident in our businesses.

How are you dealing with disruptors like Airbnb?

We are witnessing a continued improvement in the demand for rooms and ITC is well poised to benefit from this improved demand with its expanding footprint. ITC's hotels business caters to the needs of the luxury and corporate traveller who look for bespoke services along with stringent standards across multiple areas including safety, security, hygiene and conveniences. Hence, we are not greatly impacted by Airbnb but the sharing economy business model is an area under continuous watch.

How has increasing regulations affected your cigarette business?

Whilst there is a need to regulate the industry, it is imperative that regulations should not lead to unintended consequences, as we have witnessed in the case of sharp increases in taxation on cigarettes.



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SANJIV PURI
Managing Director, ITC

Over the last six years, cigarette taxation has trebled. Such punitive increase in taxation has led to substantial growth in the illicit cigarette industry. Overall tobacco consumption has increased over the years, however, the legal cigarette industry has declined and its share of tobacco consumption has reduced to 11%

but accounts for 87% of the revenues and is taxed more than 50 times compared to other forms of tobacco products. So, there is a shift to illegal and smuggled cigarettes, which has led to an estimated loss of ₹13,000 crore to the exchequer.

Are you interested in buying GSK's Horlicks brand?

Given the high FMCG valuations in India, such acquisitions could be a challenge. In this context, given the sluggish growth of this category, we are not pursuing it.

Companies such as Unilever are increasingly partnering startups in an effort to be more agile? What can ITC learn from them?

The environment that we are offering to people is one of professional entrepreneurship. We provide the opportunity to create brands and products right from scratch. Right from consumer insights to product development, to setting up the back-end and procurement to developing the brand positioning, and the strategy to win, it is an opportunity which is akin to that of a startup with the additional advantage of ITC's institutional support. And... we have had so many startups across businesses.