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Market Watch

# Budget 2020: Smokers to pay more on cigarettes, excise duty hiked on tobacco

BY WRITANKAR MUKHERJEE, ET BUREAU | FEB 01, 2020, 07:04 PM IST

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Smoking is going to pinch with the government increasing the National Calamity Contingent Duty (NCCD) on [cigarettes](#) anywhere between 212% to 388% depending on cigarette stick sizes.

Price of cigarettes will go up by 6-7% in case of lower priced packs where the stick size is small and has borne the maximum increase in duties, while for the larger size sticks and premium packs the price hike will be 4-5%.

The cigarette industry said this increase in duties will boost illegal cigarette sales in the country impacting legal industry sales.

NCCD is levied as a duty on the excise. As per analysts and market trackers, net impact on taxes will be an increase of around 15% in small and regular size cigarettes up to 64 mm length and 9-10% for large and king size cigarettes.

“On a blended basis, there is likely to be around 11% tax hike as the 64 mm has seen a sharper tax hike of 15% while others have seen tax hike of 9-10%...This would mean around around 7% price hike which would impact cigarette volumes by 3-4% year-on-year,” said Edelweiss Securities executive vice president Abneesh Roy.

Amulya Pandit, senior analyst at Euromonitor International, said the decision on increasing duties might hurt cigarette volumes if the companies decide to pass it on the consumers. “Consumers will need to shell out nearly 3.5% more for 75mm cigarette pack of 20, priced at Rs 300. If not, the hike will affect their bottom line,” he said.

ITC, which accounts for every three of the four cigarettes sold legally, declined to comment.

In her Budget speech, [finance minister](#) Nirmala Sitharaman said: “As a revenue measure, I propose to raise excise duty, by way of National Calamity Contingent Duty on cigarettes and other tobacco products. However, no change is being made in the duty rates of bidis.”

The share prices of cigarette makers bled heavily. ITC Ltd closed at 6.97% lower at Rs 218.85, while Godfrey Phillips India was down by 6.39% at Rs 1134.75 and VST Industries was down by 5.4% at Rs 4213.25 on the Bombay Stock Exchange. The benchmark Sensex closed 2.43% lower on Saturday.

The government also hiked the NCCD on other tobacco products like hookah, jarda, smoking mixtures for pipe and cigarettes, chewing tobacco and snuff. Bidis were, however, exempted.

Cigarette industry body, The Tobacco Institute of India (TII) said the increase in tax on cigarettes will lead to higher tax arbitrage which serves as a huge incentive to illegal cigarette trade operators who target India as a preferred destination for smuggled cigarettes.

“Illegal cigarettes have grown consistently in the country and now accounts for one-fourth of the Indian cigarette market. According to Euromonitor International, India is now the fourth largest illegal cigarette market in the world with illicit cigarettes more than doubling from a level of 11.1 billion sticks in 2004 to 25.6 billion sticks in 2018, resulting in an annual revenue loss of Rs 13,000 crore to the



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government,” a statement issued by TII said.

TII said in the current economic environment, the increase announced on NCCD in the budget will aggravate the pressure on the legal cigarette industry, encourage illegal cigarette trade and adversely impact tobacco farmer earnings whose livelihood is closely connected with the legal cigarette industry.

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