

## TOGETHER WE STRIVE

The path to victory is paved with challenges.

Today, the competition is tougher, stakes higher and the need  
to succeed is greater than ever.

Ushering in a new era of change, we, at Godfrey Phillips India,  
are building a new world of infinite possibilities and grand  
opportunities. Working with unity and solidarity, our combined  
efforts are helping us overcome challenges and achieve newer  
heights of greatness.

Together, we are building the future and providing our  
shareholders, employees and customers with profits and  
rewards for their commitment and support.

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# Corporate Information

## Board of Directors

Mr. R. A Shah	Chairman
Mr. K. K. Modi	President and Managing Director
Mr. R. Ramamurthy	Whole-time Director
Mr. Samir Kumar Modi	Executive Director
Ms. Bina Modi	Additional Director
Mr. Lalit Kumar Modi	
Dr. Lalit Bhasin	
Mr. Anup N. Kothari	

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Company Secretary: Mr. Sanjay Gupta

Registered Office: 'Macropolo Building', Ground Floor, Next to Kala Chowky Post Office,  
Dr. Babasaheb Ambedkar Road, Lalbaug, Mumbai - 400 033

Corporate Office: 49, Community Centre, Friends Colony, New Delhi - 110025

Other Offices: Ahmedabad, Baramati, Chandigarh, Chennai, Dubai, Ghaziabad, Hyderabad, Kolkata,  
Mumbai, New Delhi, Rabale, Singapore

Leaf Division: Guntur (Andhra Pradesh)

Statutory Auditors: Deloitte Haskins & Sells, Chartered Accountants

Internal Auditors: Lodha & Co. - Chartered Accountants

Registered and Transfer Agent: Sharepro Services (India) Pvt. Ltd. 13 AB, Samhita Warehousing Complex  
Second Floor, Sakinaka Telephone Exchange Lane, Off Andheri (East), Mumbai - 400 072

Solicitors: Crawford Bayley & Co.

Bankers: State Bank of India • Bank of Baroda • Bank of India • Citibank N.A • State Bank of Hyderabad  
• State Bank of Travancore • The Hongkong and Shanghai Banking Corporation • Union Bank of India

Corporate Identity Number: LI6004MH1936PLC008587

[www.godfreyphillips.com](http://www.godfreyphillips.com)



## R. A. Shah

### Chairman's Message

Dear Shareholder,

The global economic scenario in 2013-14 remained challenging though there were signs of recovery gaining some momentum in the second half; however they seemed to be uneven. While their recovery was mainly driven by strengthening of developed and advanced economies, growth has not translated fully into benefits for emerging and developing countries. Though banks are much stronger than they were a few years back and economies are no longer concerned about the debt problem, credit issues still exist. Recent geopolitical issues, such as the war in Syria, trouble in Egypt, problems in Portugal and new risks emanating from the Ukrainian crisis, quicker than expected withdrawal from quantitative easing by the U.S. and weakening sovereign financial position in Euro Zone are some of the key challenges facing global economic recovery.

On the social front, health and wellness awareness is increasing by the day resulting in changing preferences of the tobacco consumers. Technological advancements and the wellness trends are leading to companies developing next generation products aimed at harm reduction.

What does this mean for us in our focused markets namely Central and South America, Middle East and Africa, the ASEAN region and here in India? As per the latest IMF estimates relatively stronger growth is expected in almost all of these markets due to exports and recovery in domestic demand. This should bode well for our products being sold in these markets. We are focusing on strengthening our relationships as well as developing suitable brands for these markets.

India has just concluded the world's largest elections in May, 2014. After 30 years, a stable government has come to power, where coalition compulsions will not be used as a bargaining plank for myriad political motivations. Our heartiest wishes to the new government. This government has further elevated general expectations of superior governance, greater clarity and certainty in the policy dispensation, pick up in investment activity by fast track clearances on long stalled large scale projects and most importantly, revival of business confidence. Though there are some key downside risks going forward such as high inflation, rising oil prices and weak monsoon, our political leadership is hopeful of tackling them in so far it appears from the recent pronouncements. Thus, we hope to participate in delivery of favorable outcomes to the perceived objectives of increasing per capital income, reducing income disparities and alleviating poverty.

With taxes already hiked as the government embarks on controlling the consumption of tobacco products and consumer awareness likely to further increase for improving health standards, your Company is looking to strike a fine balance between the twin objectives of business growth and legal compliance.

We continue to look forward to achieving all shareholder objectives and advancing our standards, through the continued trust of our consumers, partners, shareholders, well-wishers and employees. I would like to express my gratitude to you all for your incessant support in all our endeavors.

With best wishes and warm regards,

R. A. Shah



## K. K. Modi

### President's Message

Dear Shareholder,

I'm pleased to share with you the results of our resurgence in the financial year 2013-14. Your Company delivered a healthy topline of Rs. 4,196 crore with a growth of 15.2 per cent over last year, reflecting its strong fundamentals and business foundation. Despite challenges faced by the economy, your Company bounced back to deliver a profit before tax at Rs. 255 crore registering a 7.6 per cent growth despite having incurred huge one-time cost for closing down manufacturing operations at its plant in Andheri, Mumbai. I am also pleased to announce that the Board has yet again recommended a dividend of Rs. 40 per share for the said year.

During the year your Company continued its focus on increasing the width of its operations, in terms of growing the non-tobacco business and expanding international operations. I am pleased to inform you that our other businesses- non-cigarette and non-tobacco segment – witnessed a revenue growth of 31 per cent during the year to reach Rs. 270 crore.

I regret to inform you that we suffered a huge loss during the year in terms of the demise of one of our vastly experienced and able leaders and my dear friend Mr. S. Seru after prolonged illness, triggering a need for change in management and organisational structure.

With the organisational changes in place, your Company is going to see enhanced consumer orientation along with high focus on retail and market facing capabilities in the current financial year. The new management team is also working on deep rooting your Company's open door and performance driven culture, to further smoothen its ride on the growth path.

Going forward, your Company will continue to expand its international operations through alliances, tie-ups and collaborations for entry to new markets – especially in developing markets of Latin America, Middle East and Africa, expansion of portfolio offerings and investment in building own brands.

Further, the envisioned growth in domestic market share will be attempted to be delivered through your Company's professed commitment to developing innovative and contemporary product offerings across all categories with the clear objective of harm reduction. These expansion initiatives will be backed by investments on one hand in enhancing your Company's manufacturing capability to meet the international quality standards and on other hand in upgrading the people skills.

The present economic environment is quite challenging and we are passing through trying times. All of us are hoping for 'achche din' now that the new government is in place at the centre with a clear mandate. Though the budgetary proposals unveiled by the Honorable Finance Minister recently do not augur too well for the cigarette business, your Company will continue to strive hard to bring about sustainable growth under all odds.

To sum up, I would like to take this opportunity to thank all the shareholders and stakeholders for their never ending trust in the leadership team of the Company. I sincerely solicit your continued support to our plans to effectively tackle challenges en route the growth phase.

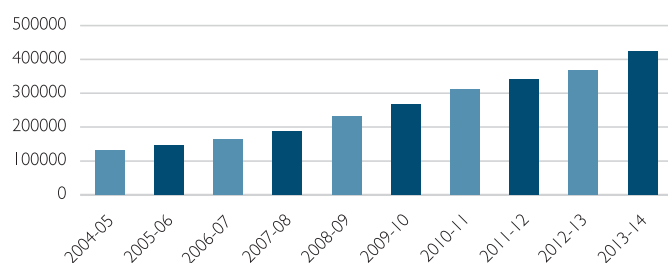
Warm regards,

K. K. Modi

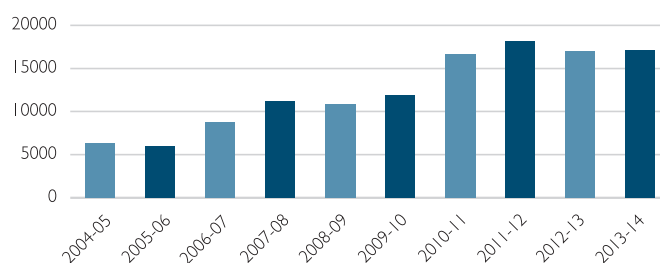
# Financial Highlights

## Trends

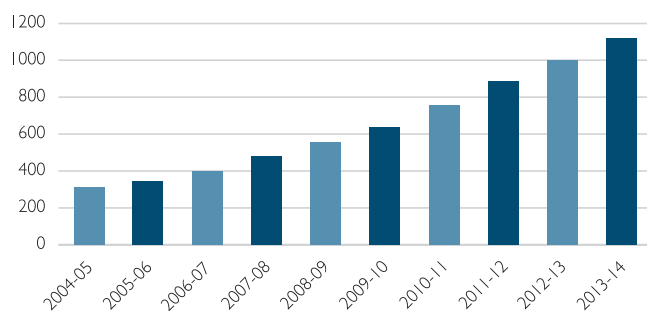
**Gross Revenue (Rs. in Lacs)**



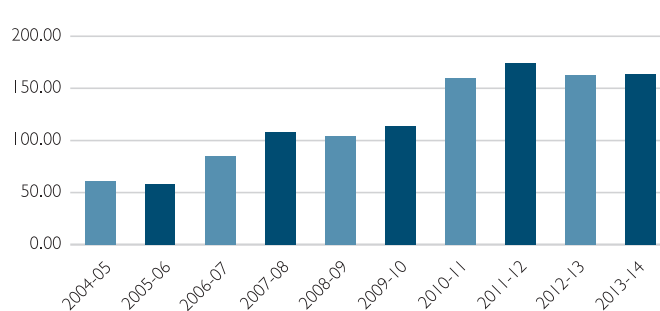
**PAT (Rs. in Lacs)**



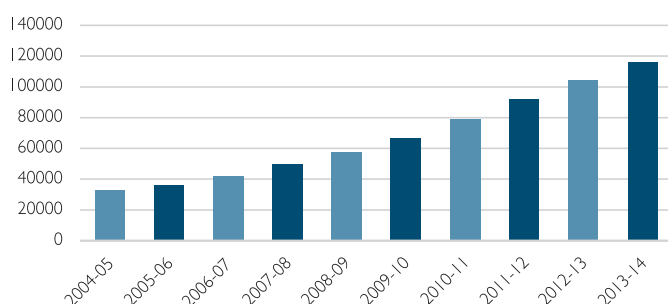
**Book Value per Equity Share (in Rs.)**



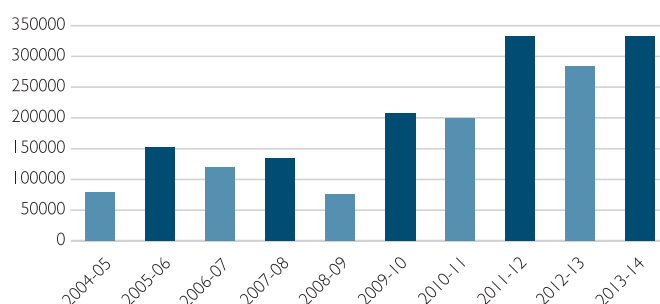
**EPS (in Rs.)**



**Shareholders' Funds (Rs. in Lacs)**

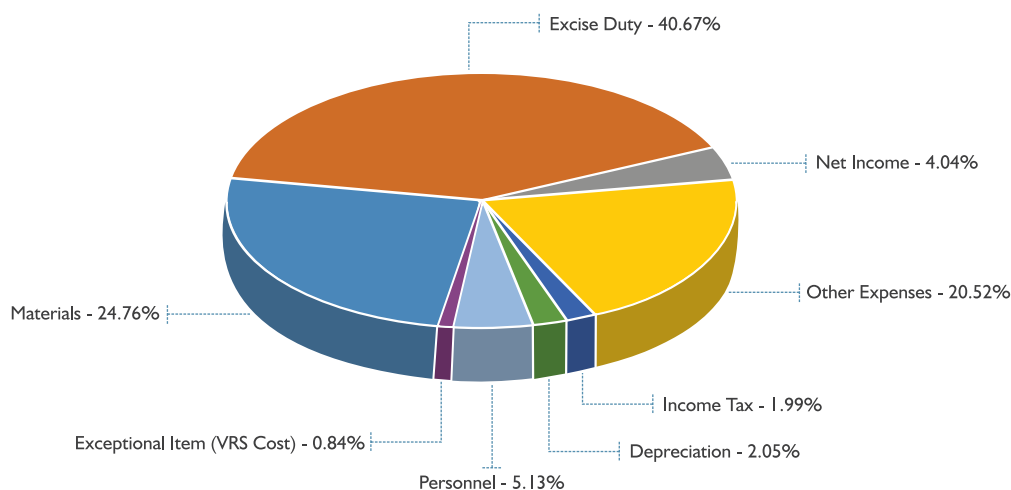


**Market Capitalisation (Rs. in Lacs)**



# Financial Highlights

## Revenue Distribution



### 10 YEAR HIGHLIGHTS

Rs. In Lacs

PARTICULARS	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
<b>CAPITAL EMPLOYED</b>										
Net Fixed Assets	71694	71887	67443	47387	31896	25980	15337	12655	12984	12920
Investments	35529	31853	35833	32314	19485	20986	32957	24627	21100	19916
Working Capital	32052	31172	21016	21797	26823	20172	12205	10962	9809	4513
Deferred Tax Assets (Net)	973	-	752	79	-	236	-	-	-	1576
Total	140248	134912	125044	101577	78204	67374	60499	48244	43893	38925

### FINANCED BY

Shareholders' Funds	116370	104172	92091	79025	66652	57845	49996	41815	36046	32701
Borrowings	23878	30356	32953	22552	11455	9529	10338	6073	7439	6224
Deferred Tax Liabilities (Net)	-	384	-	-	97	-	165	356	408	-
Total	140248	134912	125044	101577	78204	67374	60499	48244	43893	38925

### OPERATING PERFORMANCE

Gross Revenue	422067	367282	341858	310838	267292	232445	187634	163277	145712	132538
Excise Duty	171653	157777	146058	146768	121386	115636	94040	82423	76176	61021
Depreciation	8655	8800	6263	4000	3391	2803	1977	1907	1837	1655
Profit Before Taxation	25468	23690	25723	24147	16740	16591	16974	13523	9969	9995
Profit After Taxation	17064	16948	18136	16603	11839	10890	11222	8810	6013	6360
Dividend	4159	4159	4159	3640	2600	2600	2600	2600	2340	2288
Corporate Dividend Tax	707	707	675	590	432	442	442	442	328	321
Retained Earnings	12198	12082	13302	12373	8807	7848	8180	5768	3345	3751

### INVESTORS' DATA

Earning Per Equity Share (Rs.)	164.10	162.98	174.41	159.67	113.84	104.73	107.92	84.73	57.82	61.16
Dividend Per Equity Share (Rs.)	40.00	40.00	40.00	35.00	25.00	25.00	25.00	25.00	22.50	22.00
Book Value Per Equity Share (Rs.)	1119.07	1001.77	885.59	757.67	638.69	553.99	478.52	399.84	344.37	312.20
Number of Shareholders	11137	10839	11125	11242	11364	12350	12824	12740	11261	11719

## DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors have pleasure in presenting the Seventy-seventh Annual Report on the business and operations of the Company together with the Audited Accounts for the financial year ended March 31, 2014.

### ECONOMIC ENVIRONMENT

The year under review, started with a cautious sentiment and a difficult time for the global economic activity. However, with things getting under control the business situation improved gradually. Major economic zones saw divergent growth during the year. While the US economy strengthened, Euro Zone saw a turbulent economic phase. On the other hand, developing economies such as Latin America, Middle East and Africa witnessed a sluggish growth.

The domestic economy continued on its challenging trajectory, with growth at decadal low. The domestic industrial sector saw persistent slowdown, despite measures being taken by the government. The currency as well as demand was under pressure, compounded by high inflation and steepening input costs.

With recovery on the anvil and favourable economic dynamics, the domestic environment is slowly changing. Demand is expected to resurge, as fiscal conditions improve and developed economies rebound. However, geopolitical risks in other developing economies have increased and will be important to keep an eye on.

While global growth is projected to improve from 3.3 per cent in 2013-14 to 3.6 per cent, growth in advanced economies is expected to lag the global growth at 2 per cent. Fiscal tightening and accommodative monetary conditions are likely to be the key contributing factors. Growth in the developing economies is projected to be in the 5% range in 2014-15. With geopolitical risks withering down in the developing nations, performance of your Company's export division is further likely to benefit.

### TOBACCO INDUSTRY

Globally, the tobacco industry has grown by around 3 per cent in value terms to USD 783 billion in FY14. The global cigarette volumes have declined by 1 per cent in FY14, whereas the value has grown by 3 per cent. Increasing taxes & widening regulations are impeding growth of cigarette volumes globally.

The Indian tobacco industry is estimated to be around USD 13 billion in FY14. Cigarette constitute 61 per cent of the total value, followed by Bidi (23 per cent) & Chewing tobacco (16 per cent).

Indian cigarette market has shown a decline of around 3 per cent in volume, impacted by pricing pressure and growing health concerns. However, the price hikes taken by the industry have resulted in a value growth of 14 per cent over the previous year. The 64mm segment, aided by favourable taxation, has grown by two & half times in volume terms as compared to last year. Premiumisation trend has continued with growing Kings Segment (KSFT), which now accounts for more than 15 per cent of the industry's volumes. The growth in King Size has been driven by Lights/Milds variants due to the perception of reduced harm. However, the Regular Size Filter (RSFT) category, which forms the body of the industry has lost industry's share from 76.9 per cent in FY13 to 66.3 per cent in FY14. There has been increased up-trading from Premium RSFT to KSFT segment this year, due to reduced price difference. Also, the industry continues to face the challenge of illicit trade. With growing health concerns, consumers are also exploring new generation products such as e-cigarettes, nicotine gums, etc.

Indian leaf tobacco exports were higher as compared to last year, both in volume and value terms.

### Regulation and Taxation

With global tobacco regulatory environment becoming stricter by the day, businesses are facing a daunting task of growing top-line and bottom-line. In India too, over the past few years the Union



# DIRECTORS' REPORT



GODFREY PHILLIPS  
—INDIA LIMITED—

government has been inflicting steep excise hikes on the Cigarette industry, along with State governments further imposing high VAT at varying rates. In the recently presented budget, excise duty has further been hiked on various segments, ranging between 11 to 72 per cent. Varying VAT rates have led to differential pricing, growth in the illicit trade and inducing a shift to non-standard forms of tobacco. While the 64mm segment helped the industry to counter illicit trade to some extent, the recently announced disproportionate excise hike of 72 per cent for the segment is likely to exacerbate the problem of illicit trade.

Though your Company is committed to abide by the regulations as a responsible corporate, we eagerly await a unified taxation system in terms of GST as it is expected to benefit both the industry and consumers by rationalizing the differential pricing and thus curbing sales of illicit products.

## SEGMENTWISE PERFORMANCE IN 2013-2014

### Cigarettes

The domestic cigarette industry had to contend with increased central and state taxes for the second year in succession. Though your Company has witnessed decline in volume, it still was able to register a healthy growth of 11.7% in terms of sales income, from Rs. 2,920 crore previous year to Rs. 3,263 crore and hold on its market share, reversing the declining trend of previous years. We have been able to increase volume in the 64mm segment against aggressive competitive moves, but kept a balanced mix of the lower margin 64mm and the higher margin 69mm segments.

Despite the challenging scenario faced by it, your Company is aiming for steady growth through balanced brand portfolio, consumer centric working, quicker response to environmental changes and data-driven decision making process. We are also working on strengthening our main brand franchises by improving imagery on consumer relevant parameters and adopting new research tools & methodologies to test consumer relevant concepts. Multiple cross-functional integrated projects are currently underway towards making our brands consumer centric in the market place by delivering superior product experience and thereby winning consumer confidence.

### Tea

Your Company's domestic tea business progressed well on its path of resurgence, posting overall net sales of Rs. 116 crore against Rs. 106 crore i.e. growth of almost 10 per cent over last year. The division focused on capturing the premiumization trend in the domestic market and extended its mainstay, the Supercup brand to develop the franchise and participated in the upper mid-premium segment by launching Supercup Gold and Supercup Premium, continued expanding presence in alternate high-growth channels like modern trade, institutions and home shopping. Further concerted effort helped the team to grow its premium offering Symphony by 12 per cent in the domestic market. With an aim of strengthening our quality focus, your Company implemented the Kaizen and 5S systems at both its factories at Kolkata and Bazpur.

### Exports

The following table shows the status of exports for different products during the year under report:

	2013 - 14	2012 - 13
Commodity/ Product	Value (Rs. in crore)	Value (Rs. in crore)
Cigarettes	144.54	109.22
Unmanufactured tobacco	262.08	172.18
Cut tobacco	29.77	39.01
Tea	54.53	39.27

Exports of your Company have grown by 36% during the year achieving a value of Rs.491 crore for the FY 2013-14.

To bring a major thrust and provide the strategic direction to the export business, your Company has restructured its International Business division in order to realize its full potentials. A long term business plan is being worked out for a sustained growth of international business across all product categories with the key focus being on increase in sustainable business with existing clients expanding to cover new geographies and new clients and adding value to the business by putting greater thrust in building brand saliency and thereby equity across the globe. Setting up of the regional hubs in Dubai and Singapore is a step in this direction and is expected to aid in building greater customer confidence. Your Company is also exploring to get a foothold in the markets of Africa through strategic tie-ups and alliances.

Tea exports grew phenomenally at 39% over last year primarily due to expansion into new geographies such as Afghanistan, Russia and Netherland and growing client base in key geographies of Iran and Pakistan. Your Company is now focusing on identified markets in Oman and Uzbekistan to scale further heights in the business.

## **Chewing Products**

There was acceleration of gains over the last fiscal and the business grew by 11% to close the year at Rs. 158 crores compared to Rs. 142 crores the year earlier. The Company launched 'Raag' Pan Masala and 'Raaga' Zarda and reaped the gains of this launch in Gujarat & MP.

Your Company has invested significant time and money to develop new capabilities and capacities which will help the Company to grow the business. A number of researches and new offers are being done to gain deeper understanding of the market and consumer. Efforts are now being made to build 'Pan Vilas' salience and superior imagery to capture more market share, build a compelling solution for the premium mixer, and proliferate 'Raag' further in the popular Pan Masala segment.

As per the global taxonomy the Company's portfolio of chewing products is categorized as 'Asian styled chewing' products comprising of consumers from India, Pakistan, Nepal and Bangladesh. Diaspora of this origin, settled across the globe, also demands these products. Your Company has started focusing on these consumers and is in the process of making its products available to them. To this end, your Company is exploring partnerships in Nepal and Bangladesh to give its brands a global platform.

## **Retail**

Company's foray into retail business through 24x7 convenience stores is making steady progress. The Company is currently operating through 42 stores spread across NCR and includes four new stores opened in Chandigarh. New business models are currently under evaluation with the help of Japanese consultants and we hope to scale greater heights in times to come.

## **TREASURY OPERATIONS**

Your Company continues to enjoy the highest rating of 'CRISIL A1+' for Short Term Debt Programme, 'CRISIL AA+/Stable' for Long Term Loan, 'CRISIL AA+/Stable' for Cash Credit Limit and 'CRISIL A1+' for Non-fund based Limit. With these ratings in place, your Company is able to raise funds at most competitive terms.

Guided by the policy of safe, liquid and tax efficient returns, the Company has been deploying its long term surplus funds primarily in debt oriented schemes of reputed mutual funds. The Company also continued to park its temporary surpluses in liquid schemes of various mutual funds.

## **FIXED DEPOSITS**

The Company has not accepted any Fixed Deposits from the public or members during the year. No amount was outstanding towards unclaimed deposits payable to the depositors as on March 31, 2014.