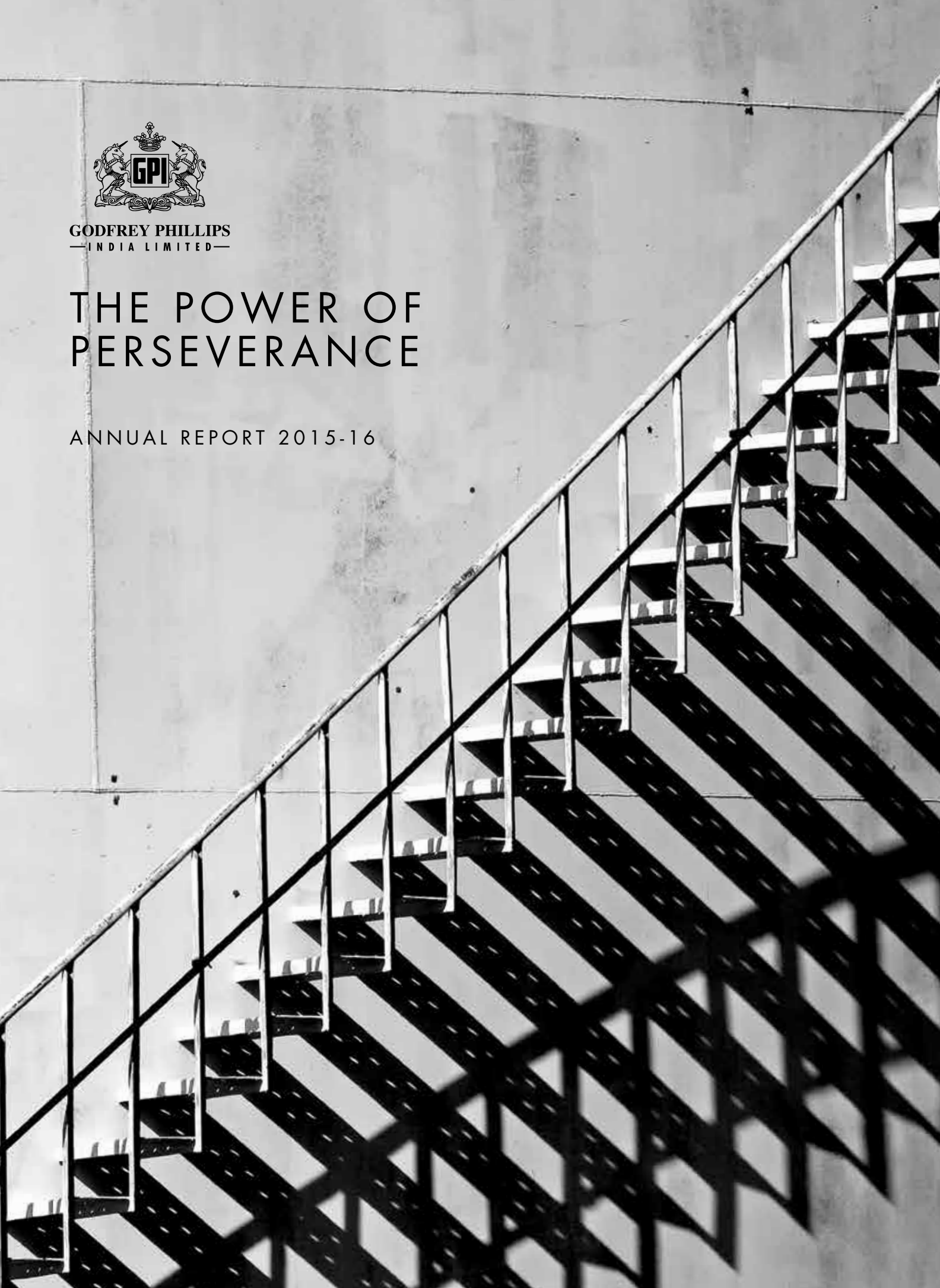




GODFREY PHILLIPS  
—INDIA LIMITED—

# THE POWER OF PERSEVERANCE

ANNUAL REPORT 2015-16





GODFREY PHILLIPS  
—INDIA LIMITED—

## THE POWER OF PERSEVERANCE

We have witnessed several challenges this past year but have not let ourselves succumb to them.

The business environment and state of the market, although confrontational, have only served as further inspiration for us to overcome obstacles.

Our spirit of collaboration and teamwork, together with an unending perseverance, made possible our productivity which is evident in this Annual Report.

The company's resolve to climb the ladder of growth with determination and dedication has levied continued support from our internal and external stakeholders. Our focus remains undeterred as we look forward to reaching greater heights of success in the years to come.

# Contents

---

Corporate Information	1
Chairman's Message	2
President's Message	3
Financial Highlights	4
Directors' Report & Management Discussion and Analysis	6
Report on Corporate Governance	38
Auditor's Report	55
Balance Sheet	62
Statement of Profit and Loss	63
Cash Flow Statement	64
Notes to the Financial Statements	65
Consolidated Financial Statements	90

# Corporate Information

## Board of Directors

Mr. R. A. Shah - Chairman  
(DIN 00009851)

Mr. K. K. Modi - President & Managing Director  
(DIN 00029407)

Mr. R. Ramamurthy - Whole-time Director  
(DIN 00030463)

Mr. Samir Kumar Modi - Executive Director  
(DIN 00029554)

Mrs. Bina Modi (DIN 00048606)

Dr. Lalit Bhasin (DIN 00001607)

Mr. Anup N. Kothari (DIN 00294737)

Mr. Atul Kumar Gupta (DIN 01734070)

Mr. Ruchir Kumar Modi (DIN 07174133)

### CHIEF FINANCIAL OFFICER

Mr. Sunil Agrawal

### 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 - 110 025

### OTHER OFFICES

Ahmedabad, Baramati, Chandigarh, Ghaziabad, Hyderabad, Kolkata, Mumbai, Navi Mumbai, New Delhi, Singapore

### LEAF DIVISION

Guntur (Andhra Pradesh)

### STATUTORY AUDITORS

Deloitte Haskins & Sells, Chartered Accountants

### INTERNAL AUDITORS

Lodha & Co., Chartered Accountants

### REGISTRAR AND TRANSFER AGENTS

Link Intime India Pvt. Ltd., C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (W), Mumbai - 400078

### 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

LI6004MHI936PLC008587

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



## R. A. Shah

### Chairman's Message

Dear Shareholder,

Global economy remained subdued in 2015 with growth rate slowing down to 3.1% from 3.4% in 2014. Both the IMF and the World Bank have cut their 2016 global forecasts to a rate lower than 2015 thereby indicating that the global recovery remains fragile. Tightening of financial conditions in the U.S. and Japan, geopolitical tensions in advanced nations, net capital outflows from the emerging markets, continued slowdown in growth rates in China, lower commodity prices and above all the British unexpectedly voting to exit from the European Union are some of the risks of the world falling into a 'low-growth trap'.

Riding on some feel good factors, the Indian economy has grown at 7.6% in 2015-16 compared to 7.3% in 2014-15. It is a midterm for Modi government and some of the economists and independent policy experts feel that 8% growth is possible in this year though IMF forecast is for 7.4%. Public investment and urban consumption demands had been the two growth drivers, but with good monsoon-led rural demand and stabilising exports, the economy seems to have finally found four legs to walk on. Other growth drivers could be lowering of interest rates, boost from GST and other reforms, rising foreign direct investment, cleaning up of bank NPAs, improved corporate earnings, etc. But there are a few worrying factors such as the bank's reluctance to extend credit to SMEs, inflation holding its head high, private investment not picking up as expected and repayment obligations of USD 32 billion FCNRB loan taken in 2013.

With the passage of constitutional amendment bill by the Rajya Sabha, the Goods and Services Tax (GST) that unifies India as one market would at last become a reality after more than a decade of bickering by the political class. GST will be an important input in helping accelerate the investment cycle and thereby enhance growth over a long period. As the economists say it could prove to be an economic game changer for India.

The concept of plain packaging and excessively large pictorial health warnings on the cigarette packs has given rise to an interesting debate in the intellectual property rights (IPR) circles worldwide as it is strongly felt that these erode the value of the distinctive trademarks and pack designs that have been assiduously developed and nurtured through substantial investments over a period of time.

Euromonitor International estimates the worth of global tobacco industry to be USD 770 billion in 2015, growing at 3% CAGR since 2010 with cigarettes contributing to about 90% of this. The underlying value potential of the cigarette industry, therefore, remains strong and your Company envisages leveraging this value potential in becoming one of the leading global tobacco players.

I offer my heartfelt gratitude to all the Shareholders and stakeholders for continuing to place their confidence in the Company.

With best wishes and warm regards,

R.A. Shah



## K. K. Modi

### President's Message

Dear Shareholder,

I am glad to share that your Company has been successful in maintaining its revenue base at Rs. 4,296 crore in 2015-16. This has been achieved in spite of stiff taxation and regulatory pressures. I am delighted to announce that your Directors have yet again recommended a dividend of 400% for the year ended 31st March, 2016.

Amid these challenges, your Company has defined a growth path based on people and a contemporary portfolio of products. Consumer acquisition continues to be critical for our growth. Innovative new products are being developed to gain market share. Capsule filter based cigarettes, electronic vaping devices and new variants in chewing and candy businesses have been launched in the recent months. There are some other innovative products from the cigarette, chewing and tea businesses that are in the offer pipeline. I am fairly confident of a reasonably good growth coming from our international businesses as well.

A significant part of the strategy has been to de-risk the business from regulatory pressures faced by cigarettes. Your company has embarked on an ambitious growth drive with three growth levers for success.

The first lever is the chewing business. Our premium Pan Masala brand, "Pan Vilas" has been awarded as "India's Most Trusted Brand 2015" by India's Most Trusted Brand Awards Council, "World's No.1 Brand Award" by IBC Infomedia and MRG and "Asia's Most Promising Brand 2016" second time in a row by World Consulting and Research Corporation in pan masala category. Our other trademark "Raag" pan masala has shown phenomenal success growing by many times over the last 12 months. At this pace, we are poised to cross the Rs. 200 crores revenue mark this year, a big achievement in a short span in this category. New Candy flavours like Pan have been launched. Our latest product Pan Vilas Burst has also started off well.

The second lever towards strengthening our business model is to leverage technology platform and develop reduced harm products. In this we have developed world class electronic vaping devices and re-chargeable devices. Globally Electronic Cigarettes account for nearly USD 8 Billion in revenues with double digit growth rates. In this electronic vaping devices market, your company's products namely Zest and Verge are gaining acceptance in Key Indian Metros. We plan to expand this category in India and key global markets.

Our third lever revolves around extracting best value from our key strength i.e. sales and distribution infrastructure and ability of our people in rapid rollouts. We have successfully rolled out Marlboro Advance Blue in over 300,000 premium retail outlets in less than a month. We have now embarked upon a revised methodology of working where frontline personnel are being delegated higher accountability, responsibility and decision making authority. At the same time the organisation is being made lean and fit through optimisation of deployed resources.

The next few years will see regulatory pressures grow consistently. Our endeavour will be to continuously scan the business environment and remain ready for any unforeseen situation. Recent reports from The Tobacco Institute of India, FICCI and Euromonitor suggest growth in illicit cigarettes in India. Almost 1 in 5 cigarettes sold in Indian markets are illicit causing losses to both the government and the Industry. We will support any government initiative taken towards curbing the menace of illicit trade in India.

I take this opportunity to extend my sincere gratitude to all our consumers, business partners, shareholders and employees for their relentless support, faith and commitment. It is this unwavering support that pushes us to work towards creating long term value for all stakeholders.

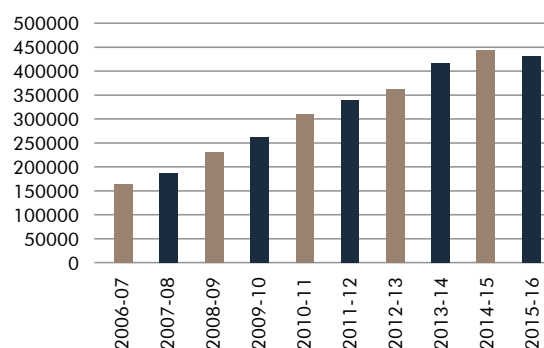
Warm regards,

K. K. Modi

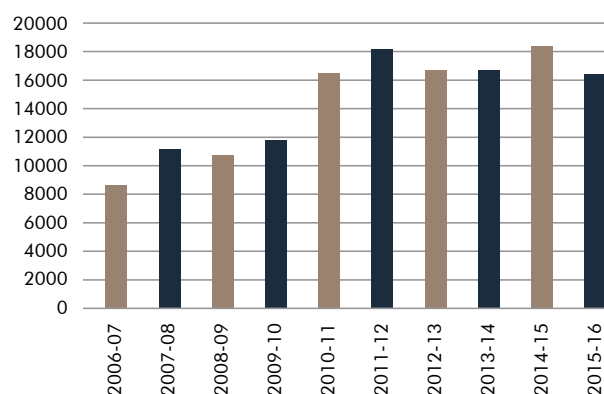
# Financial Highlights

## Trends

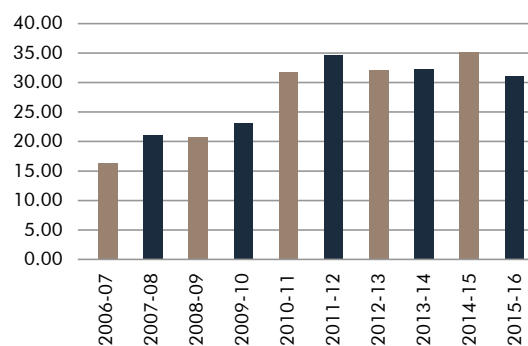
Gross Revenue (Rs.)



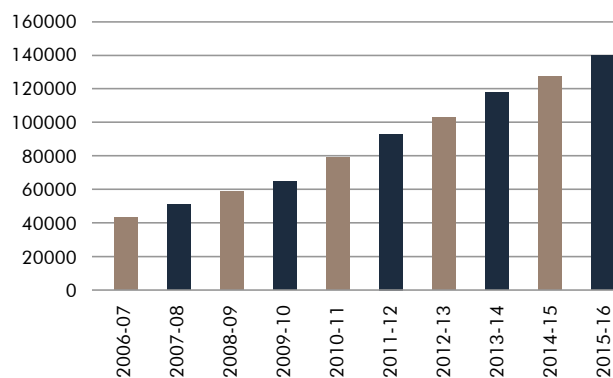
Profit After Tax (Rs. Lacs)



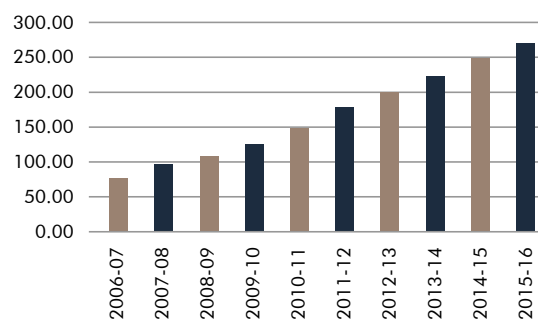
Earning per Share (Rs.)



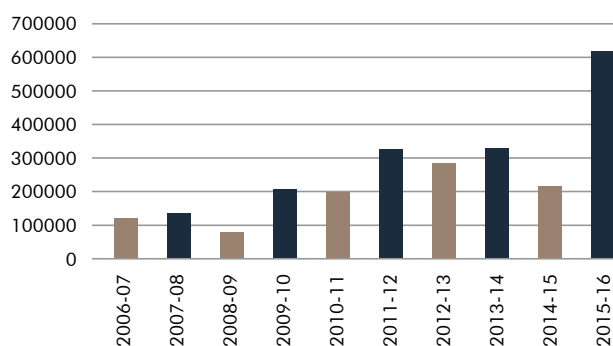
Shareholders Funds (Rs. Lacs)



Book Value per Equity Share (Rs.)

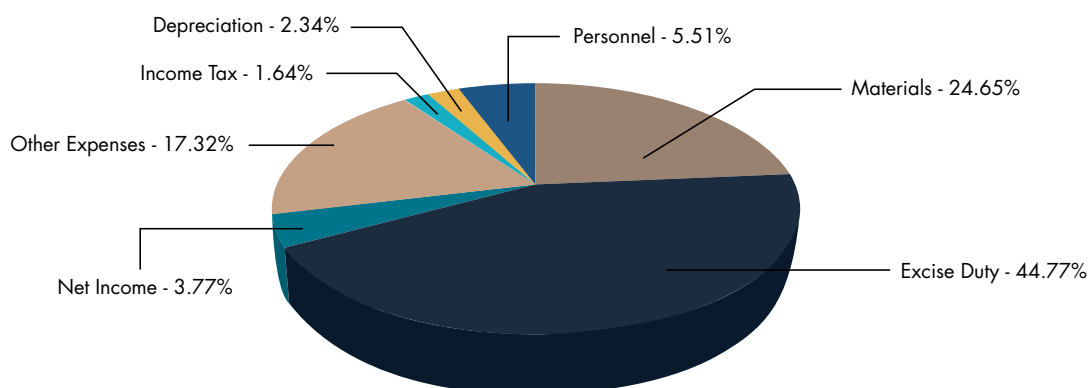


Market Capitalization (Rs. Lacs)



# Financial Highlights

## Revenue Distribution



### 10 YEAR HIGHLIGHTS

(Rs. Lacs)

PARTICULARS	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
-------------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------

#### CAPITAL EMPLOYED

Net Fixed Assets	<b>74334</b>	71393	71694	71887	67443	47387	31896	25980	15337	12655
Investments	<b>33428</b>	32238	35529	31853	35833	32314	19485	20986	32957	24627
Working Capital	<b>45463</b>	51634	32052	31172	21016	21797	26823	20172	12205	10962
Deferred Tax Assets (Net)	<b>1416</b>	1653	973	-	752	79	-	236	-	-
Total	<b>154641</b>	156918	140248	134912	125044	101577	78204	67374	60499	48244

#### FINANCED BY

Shareholders' Funds	<b>140754</b>	129262	116370	104172	92091	79025	66652	57845	49996	41815
Borrowings	<b>13887</b>	27656	23878	30356	32953	22552	11455	9529	10338	6073
Deferred Tax Liabilities (Net)	<b>0</b>	0	0	384	-	-	97	-	165	356
Total	<b>154641</b>	156918	140248	134912	125044	101577	78204	67374	60499	48244

#### OPERATING PERFORMANCE

Gross Revenue	<b>437668</b>	448589	422067	367282	341858	310838	267292	232445	187634	163277
Excise Duty	<b>195922</b>	196897	171653	157777	146058	146768	121386	115636	94040	82423
Depreciation	<b>10220</b>	10226	8655	8800	6263	4000	3391	2803	1977	1907
Profit Before Taxation	<b>23685</b>	27140	25468	23690	25723	24147	16740	16591	16974	13523
Profit After Taxation	<b>16498</b>	18308	17064	16948	18136	16603	11839	10890	11222	8810
Dividend	<b>4159</b>	4159	4159	4159	4159	3640	2600	2600	2600	2600
Corporate Dividend Tax	<b>847</b>	847	707	707	675	590	432	442	442	442
Retained Earnings	<b>11492</b>	13302	12198	12082	13302	12373	8807	7848	8180	5768

#### INVESTORS' DATA

*Earning per Equity Share (Rs)	<b>31.73</b>	35.21	32.82	32.60	34.88	31.93	22.77	20.95	21.58	16.95
Dividend per Equity Share (%)	<b>400</b>	400	400	400	400	350	250	250	250	250
*Book Value per Equity Share (Rs)	<b>270.71</b>	248.61	223.81	200.35	177.12	151.53	127.74	110.80	95.70	79.97
Number of Shareholders	<b>18000</b>	16169	11137	10839	11125	11242	11364	12350	12824	12740

\*Restated for face value @ Rs.2/- per share post split.



## DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors feel privileged to present the 79th Annual Report on the business and operations of the Company along with the Audited Accounts for the financial year, ended March 31, 2016.

### ECONOMIC ENVIRONMENT

2015 was marked by moderate growth in global economy. IMF estimated a growth of 3.1 per cent globally in 2015 and forecasts a 3.2 per cent growth in 2016. Growth was driven by an improved US economy and subdued oil and commodity prices. However, the slow growth of emerging economies, primarily China, remains a concern at the global level. 2016 augurs caution from economic and political uncertainty due to several undercurrents running in parallel. The US Presidential elections, lifting sanctions on Iran, Brexit, under performance of the Chinese economy will add to the uncertainty of the economic terrain. In particular, the US Dollar will be exposed to these volatile factors. Any impact on the US Dollar can subsequently affect the local currencies, thereby impacting export-import and external borrowings.

India is a beacon of hope as its economy grew by 7.6 per cent in 2015-16, amid the prevailing negative sentiments globally. This growth is supplemented by low inflation that can potentially boost discretionary spending. Both urban and rural consumer demand is likely to get a forward push from the implementation of higher salaries recommended by the 7th Pay Commission, and prospects of a better monsoon this year. IMF forecasts India's growth to be 7.4% in 2016-17. But many independent experts reckon that 8% this year is possible and that the signs of uptick are getting stronger. The Goods and Services Tax (GST) appears to be closer to reality than ever. The implementation of GST is expected to set the stage for improved business conditions and progressively higher tax revenues at lower cost and uniform pricing across India.

### TOBACCO INDUSTRY

The global tobacco industry accounted for a 5 per cent growth in value to USD 698 billion in 2015 keeping the value growth intact. The global cigarette volumes declined by about 2 per cent in 2015, primarily driven by a 2 per cent decline in China.

The new generation tobacco products are gaining adoption as consumers perceive these to be of reduced harm. Your company has also entered this segment by introducing electronic vaping devices in a few select markets and has ambitious plans both for the domestic and international markets.

While taxation has had an impact in the recent past, the government appears to have reconciled to the fact that moderate tax increases are better in achieving the dual objective of revenue growth and tobacco cessation. The last budget witnessed moderate increase in taxation helping the industry fight illicit trade.

The industry welcomes the latest developments on GST as well as counter measures towards curbing illicit cigarettes in India. Both these measures will help the industry produce highest quality cigarettes and compete with illicit cigarettes on price points and garner share from them leading to growth in tax paid products.

### Regulation

The most recently implemented regulation is the 85 per cent graphic health warning (GHW) on both sides of the cigarette package from earlier 40% on one side of the package and substituted the earlier pictures with more gruesome ones. Success of GHW has been under debate globally. Several leading tobacco markets such as the USA, Japan and China have not adopted picture based graphic health warning on cigarette packs and have only text based warnings.

There exists a high tax differential between cigarettes and other forms of tobacco. This provides a window of opportunity for chewing business to grow rapidly and acquire consumers in the chewing category. Our products in the premium and mid premium chewing space have shown stellar growth and we expect this high growth trajectory to continue.

A significant part of the cigarette value comprises excise duty and VAT. The weighted excise duty increased at 17% year-over-year in the last 5 years. In addition, state administered VAT rates were also increased across markets. A multi VAT regime promotes arbitrage and cross border smuggling, thereby squeezing revenue for both the government and legal cigarette industry. Recent developments on GST are welcome and we hope this will help create a unified Indian market, eliminate tax arbitrage opportunities and curb non tax paid business.

# DIRECTORS' REPORT

This will usher well for GPI and can potentially provide high growth for many years to come.

During the last 5 years, illicit cigarettes have grown in a big way in India. Today 1 in every 5 cigarettes is illicitly sold in the country. The industry and the Government both are losing as a result of growth of illicit trade. It goes without saying that your Company will always remain committed to regulatory adherence by being a responsible corporate entity. We also request the government to direct its attention towards curbing the menace of illicit cigarettes.

## SEGMENTWISE PERFORMANCE IN 2015-2016

### Cigarettes

The domestic cigarette industry faced another challenging year due to tax increases and regulatory strictures. Continued tax increases forced your Company to increase the price of its popular brands which has resulted in consumer churn, part of which is gained by economy segment of 64mm brands. This segment has witnessed a growth of 6% despite competitive pressures. Overall, despite unprecedented competitive pressure, your Company has earned revenue of Rs. 3278 crores against Rs. 3400 crores in previous financial year.

Even though the operating environment, going forward, is likely to remain challenging, your Company has laid out plans to ensure growth by directly involving the frontline sales personnel in developing and implementing the sales strategy. Growth for the Company will be pursued through the brands placed at economical price points as well as through product innovations. Our efforts to grow sales volumes through customer centricity, superior products and use of technology and to improve productivity through cost control and optimisation of organisation's size, will continue to be in focus in coming years.

### Tea

Our domestic packaged and bulk tea business achieved a turnover of Rs.102 crores which was marginally better than previous year. Our efforts were focused on driving business basis the regional consumer taste preferences by creating exclusive blends for key markets of Rajasthan, UP and J&K. This has not only been instrumental in driving consumer centricity but also benefitted in building saliency across spectrum of brands.

To maintain the leadership position in the packet green tea premium segment in the state of J&K, your Company has made an impressive entry with the launch of Samovar Kandakari Noon Chai. Our business in the institutional segment has shown better performance during the year with supplies to prestigious institutions like CSD, CPC and ASC. In an effort to drive long-term growth, your Company is aggressively investing behind premium products along with strengthening its feet on street in order to increase sales reach.

### Chewing Products

Your Company's Chewing Business showcases encouraging trends after suffering a setback in 2014-15, with an increase in sales revenue from Rs.144 crores to Rs.151 crores in 2015-16. With healthy share both in the premium & mid premium segments and exciting plans for growth in the medium term, the business is poised for growth to attain greater heights in the industry. Your Company is working with the objective of gaining consumer understanding and identifying his unfulfilled needs to develop highly customized product offerings.

Pan Vilas, your Company's flagship brand, continues to hold strong share in the premium segment with over 20% segment share in the solus segment. With several innovations and optimizations in production technology, the focus is on improving margins in this business. In the medium term, expansion into new geographies and consolidation of the product portfolio have been identified as the critical growth levers for the business.

'Pan Vilas' the premium Pan Masala brand has been awarded as "India's Most Trusted Brand 2015" by India's most Trusted Brand Awards Council.

Your Company has also launched its presence in the mid premium segment under the brand name of Raag – which continues to be one of the fastest growing Pan Masala brands in the industry. With an increase in portfolio with Raag, the business initiated the foray into eastern markets with great success with steady revenues from the states of West Bengal, Odisha, Jharkhand & other North Eastern states.

Your Company also made some advances in the confectionary business on the back of a successful foray into