

**ANNUAL REPORT
2016-17**



**GODFREY PHILLIPS
—INDIA LIMITED—**





STRIVING TO REACH HIGHER

Constantly striving.

Striving to be more efficient, accountable and transparent.

The business environment continues to be challenging and constantly evolving, but we strive to keep our pace, strengthen our business and improve our quality of growth.

We strive to remain committed to being good and a responsible corporate citizen. This commitment is fundamental to the way we operate. To the way we engage with our customers, employees, shareholders, associates and community, and the way we respond to their expectations. We strive to create greater value for our stakeholders.

Striving to reach higher and excel in everything we do is at the core of who we are in Godfrey Phillips India.

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GODFREY PHILLIPS
—INDIA LIMITED—

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 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, 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 AGENT

Link Intime India Pvt. Ltd., C-101, 247 Park,
L.B.S. Marg, Vikhroli (West), Mumbai - 400083

SOLICITORS

Crawford Bayley & Co.

BANKERS

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

CORPORATE IDENTITY NUMBER

LI6004MHI936PLC008587

www.godfreyphillips.com



R. A. Shah

Chairman's Message

Dear Shareholder,

The global economy continued to be subdued in 2016. However, the recent data reveals that it is gaining momentum. The IMF estimated global economic growth at 3.1% in 2016 and forecasts a 3.5% growth in 2017. I see this as a step towards economic stabilization. The US saw an increase in consumer spending by 4.3% and its exports exceeded imports. Developing economies, particularly India with its strong growth, was a beacon of hope for global economy.

Concurrently, there are also headwinds in the global operating environment. Global investments slowed down, world trade growth was only 1.2% and we witnessed flagging productivity in 2016. Commodity prices were also largely stable, with marginal improvement in the second half of 2016. However, the financial markets reflected a broad uptrend in 2016 despite Brexit and US Fed rate hikes. These are challenges that your Company needs to address through product and process innovation leading to growth in new consumer markets.

The geo-political scenario is a concern; however there are emerging opportunities within that as well. Mass migrations in Europe are creating newer markets within existing markets. This is changing consumer preferences, such as increased demand for hookah and sheesha in Eastern Europe. Your Company's export portfolio is likely to benefit from similar trends. In addition, the stability of the Indian Rupee will add to the export revenue of your Company.

2016 was a year of cautious growth for your Company. The revenue base grew by over 3%. Our cigarette volumes stabilized after successive declines in past few years due to steep tax hikes. I am more optimistic about our domestic opportunities. India is expected to grow by 7.4% in 2017-18. Inflation in India is at a record low (June 2017: 1.5%), leading to a scenario of more disposable income with consumers. The implementation of the 7th Pay Commission and pension reforms from July 2017 will further add to the wallet power of consumers. An uptake in consumer demand is great news for your Company as well. Moreover, the various initiatives and reforms unleashed by the Modi Government have built an ideal platform to facilitate a quantum jump ahead. All these developments add to my optimism about the future growth of your Company.

The regulatory landscape for tobacco in India is gradually mirroring the global regulations. The gap between global and Indian regulations has further narrowed down with the implementation of 85% Graphic Health Warning (GHW). Your Company's readiness towards global regulations has improved. Despite the much debated subject of highly disproportionate taxation on cigarettes versus other forms of tobacco in India, we are all committed to respect the regulatory framework as a responsible corporate citizen.

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 growing its gross revenues by over 3% to Rs. 4397 crores in 2016-17. This growth is backed by two growth drivers: stabilization of cigarette volumes that were declining for past few years and exponential growth in revenue of chewing products business.

While the graphic health warning and disruptions in supply chain due to demonetization impacted the business, as a responsible organization, we were at the forefront in implementing the mandatory and moving towards digital and cashless payments for bringing about much needed transparency. And in the light of this, I am delighted to announce that your Directors have yet again recommended a dividend of 400% for the year ended 31st March, 2017.

The stabilization in cigarette volumes was driven by the success of our products launched in new formats and flavours, and regaining lost volumes in some markets. The new launches included capsule filter based cigarettes in menthol flavours. In addition, we used technology and innovation in our go-to-market practices to drive momentum sales and distribution efforts.

Last year, I had mentioned that a significant part of our strategy is to de-risk the business from regulatory pressures faced by cigarettes. I am glad to inform that the chewing product business is coming out of the shadows as it recorded a 70%+ growth in its top-line in 2016-17. Your Company's chewing product business has a portfolio of highly successful and consistently award winning pan masala brands, including Pan Vilas in the premium and Raag in the mid-premium segments. Consumers identify our brands with having best product quality in the industry.

The operating environment in India is getting favourable towards legitimate business operations. I congratulate the Indian government for showing leadership and executing bold reforms such as demonetization and GST. Both these flagship reforms will help strengthen the economic pillars of the country. GST, in particular is a landmark reform that unifies India as one market. This is likely to improve the ease of doing business in India, apart from positively impacting the GDP. Your Company is expected to benefit as GST not only helps in streamlining operations across various markets but also brings about much needed uniformity in indirect taxation across the country. I hope GST will lend stability to tax rates as well.

We have carefully drafted a growth path for your Company to increase shareholder value. This growth path is based on our current strengths and potential opportunities in the next 3-4 years. We will focus on the core brands and core segments of our businesses, minimize or eliminate spends on non-core business segments and continue to drive innovation and cost efficiency. This, I believe, will see us ride the wave of success.

We also understand that regulatory pressures will grow consistently in the next few years. Reports from Tobacco Institute of India, FICCI and Euromonitor continue to suggest that illicit cigarettes are on a growth trajectory. Almost 1 in 5 cigarettes sold in Indian markets are illicit and are causing huge revenue loss to the national exchequer and the Industry. However, we are happy to note that the government is taking cognizance of this growing concern and ensuring stricter surveillance and penalties against illegal operators. As a responsible corporate we continue to support all government initiatives to curb this menace of illicit trade.

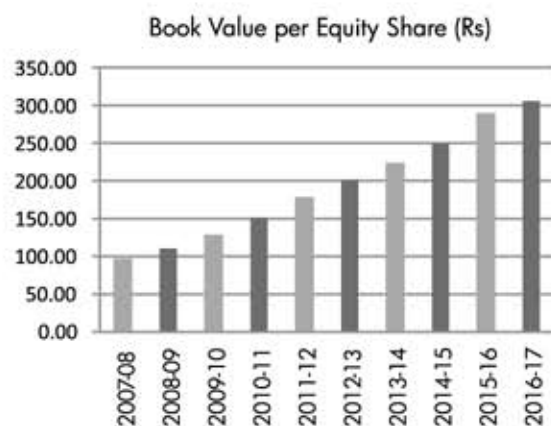
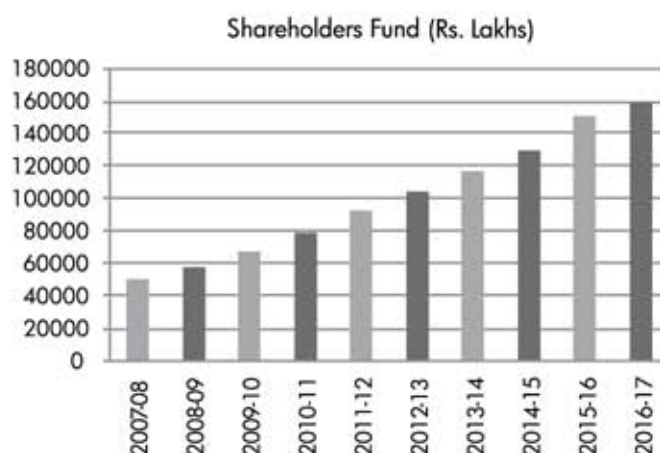
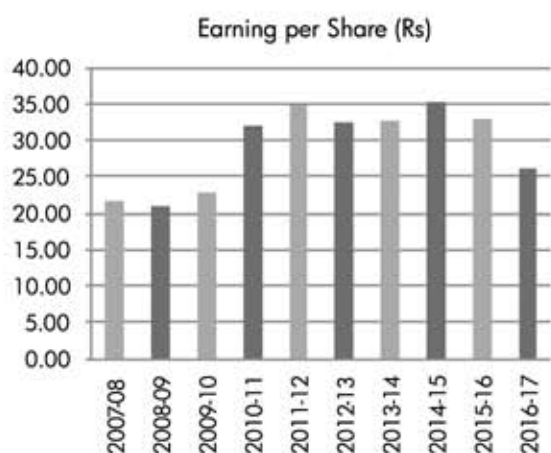
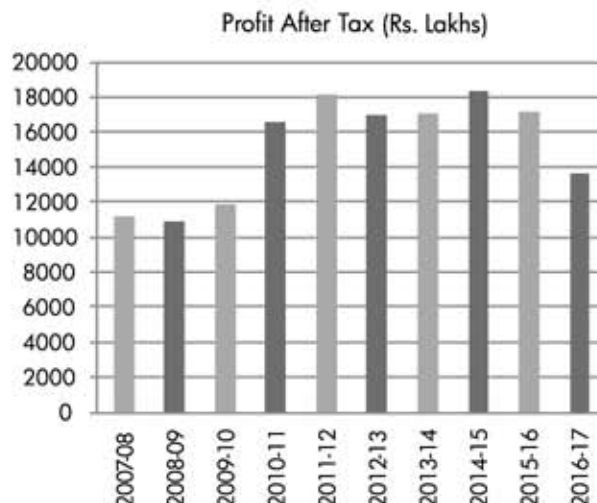
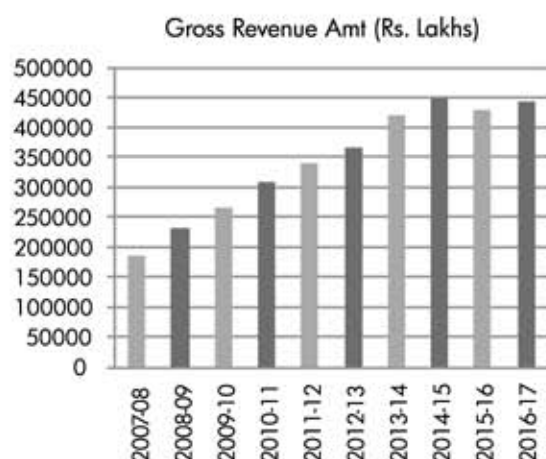
I take this opportunity to extend my sincere appreciation to all our consumers, business partners, shareholders and employees for their relentless support, faith and commitment. It is this unwavering support that helps us create long term value for all stakeholders.

Warm regards

K. K. Modi

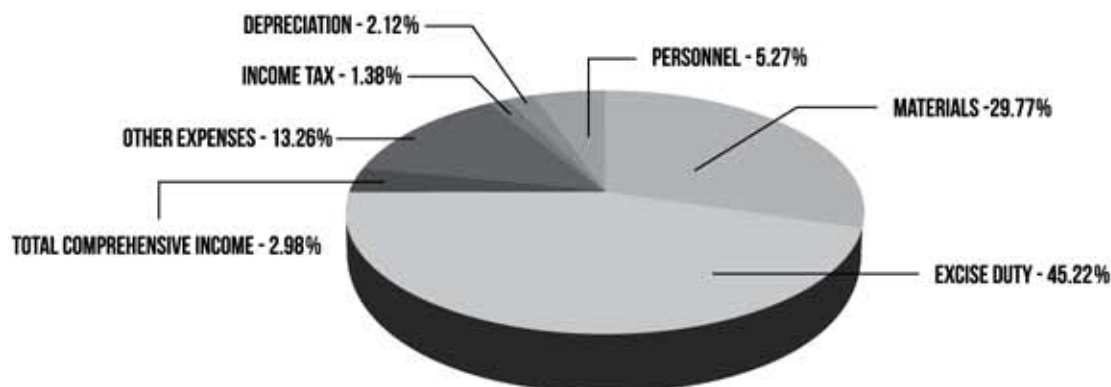
Financial Highlights

Trends



Financial Highlights

Revenue Distribution



10 YEAR HIGHLIGHTS

(Rs. Lakhs)

PARTICULARS	2016-17*	2015-16*	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
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CAPITAL EMPLOYED

Property, Plant and Equipment (including Capital Work-in-Progress, Investment Property & Intangible Assets)	68709	72434	71393	71694	71887	67443	47387	31896	25980	15337
Investments	50006	39588	32238	35529	31853	35833	32314	19485	20986	32957
Working Capital	47504	50719	51634	32052	31172	21016	21797	26823	20172	12205
Deferred Tax Assets (Net)	180	1186	1653	973	-	752	79	-	236	-
Total	166399	163927	156918	140248	134912	125044	101577	78204	67374	60499

FINANCED BY

Shareholders' Funds	159183	150964	129262	116370	104172	92091	79025	66652	57845	49996
Borrowings	7216	12963	27656	23878	30356	32953	22552	11455	9529	10338
Deferred Tax Liabilities (Net)	-	-	-	-	384	-	-	97	-	165
Total	166399	163927	156918	140248	134912	125044	101577	78204	67374	60499

OPERATING PERFORMANCE

Gross Revenue	444281	429876	448589	422067	367282	341858	310838	267292	232445	187634
Excise Duty	200923	195922	196897	171653	157777	146058	146768	121386	115636	94040
Depreciation	9413	10220	10226	8655	8800	6263	4000	3391	2803	1977
Profit Before Taxation	19777	24562	27140	25468	23690	25723	24147	16740	16591	16974
Profit After Taxation	13635	17166	18308	17064	16948	18136	16603	11839	10890	11222
Total Comprehensive Income**	13226	16947	-	-	-	-	-	-	-	-
Proposed Dividend	4159	4159	4159	4159	4159	4159	3640	2600	2600	2600
Corporate Dividend Tax	847	847	847	707	707	675	590	432	442	442

INVESTORS' DATA

Earning Per Equity Share (₹)***	26.22	33.02	35.21	32.82	32.60	34.88	31.93	22.77	20.95	21.58
Dividend Per Equity Share (%)	400	400	400	400	400	400	350	250	250	250
Number of Shareholders	20000	16825	16169	11137	10839	11125	11242	11364	12350	12824

*The figures reported for F.Y. 2015-16 and F.Y. 2016-17 are Ind AS compliant.

** Total Comprehensive income is required to be reported under Ind AS for F.Y. 2015-16 and F.Y. 2016-17 and hence not reported for earlier years which are IGAAP compliant.

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

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors feel privileged to present the 80th Annual Report on the business and operations of the Company along with the Audited Accounts for the financial year, ended March 31, 2017.

ECONOMIC ENVIRONMENT

In 2016, the growth in global economy was better but not good enough to turnaround the global economy. IMF estimated the global growth at 3.1% in 2016 and forecasts it to be 3.5% in 2017. Economic activity increased in the US as consumer spending and exports increased over last year. All European economies had slow but consistent growth in 2016. Within the developing economies, China's slowdown stabilized at 6.7%, due to policy support, unlike the slowdown expected last year. Russia and Brazil also appear to be coming out of the doldrums. India continues to remain the poster boy of economic growth globally. Most of the global central banks are expected to hold on to interest rates, thereby keeping inflation under control and accelerate consumer spending.

India is one of the fastest growing key economies in the world and is expected to grow at 7.4% in 2017-18. The current government has successfully introduced structural reforms such as demonetisation and GST to boost the Indian economy. Demonetisation had a mixed impact on the economy, however it promises to be a big step towards a digital economy. The most significant reform is GST that has amalgamated the different tax markets in India into one single tax market. It is the most fundamental and far reaching indirect tax reforms that have happened in decades. Even with some potential imperfections, it can usher in quantum leap in transaction trails and logistic efficiencies.

Corporate earnings in India are expected to grow by over 20% in FY 2017-18 in the backdrop of digital push and 'Make in India' initiatives apart from various infrastructure development initiatives like road, transport, energy and 'smart cities' projects, etc. Comfortable liquidity, benign inflation outlook, lower net borrowings by the government, stable currency and various legal reforms are expected to define a path of sustainable growth. India is expected to be the third largest consumer economy worth US\$ 4 trillion by 2025, as per a Boston Consulting Group (BCG) report. We are indeed placed in very good times, where the economic and social benefits will accrue to all Indians.

TOBACCO INDUSTRY

In 2016, Euromonitor, a global business intelligence provider estimated the global cigarettes industry at 5.5 trillion sticks worth about US\$ 700 billion and growing at 2%. The cigarette volumes declined by 3% in 2016 driven largely by decline in China and developed markets. In India, the industry managed to reverse the volume decline that was a trend for the last few years which was driven by steep tax hikes.

Globally the Electronic Vaping Devices (EVDs) accounted for US\$10 billion in 2016, while 'heated and not burn' tobacco segment represented a further US\$2 billion. The category as a whole is forecast to grow to US\$34 billion by 2021. Your Company is already present in EVD segment through select products in a few markets and has ambitious plans both for the domestic and international markets.

Tobacco in India is an extremely important sector as it provides livelihood to over 45 million people. India is the second largest global producer of tobacco. Tobacco and tobacco products contribute more than Rs. 30,000 crores to the country's exchequer annually. It should be mentioned that more than 85% of this government revenue is from cigarettes despite having a mere 15% share in total tobacco consumption in India. Successive annual excise duty hikes followed by states increasing local taxes in the past have led to this skewed taxation and volume distortions over a period of time. The industry welcomes GST, which has tried to address this distortion to some extent.

Global leading tobacco producers like Malawi, China and Zimbabwe have more than 1% of their arable landmass under tobacco cultivation, while India has only around 0.25% of land under tobacco cultivation. This is despite farmers deriving much higher income from tobacco crop than other agricultural crops in India and tobacco crop having significant export potential.

DIRECTORS' REPORT



GODFREY PHILLIPS
—INDIA LIMITED—

Regulation

India is a signatory to the WHO's tobacco control treaty, named as "Framework Convention on Tobacco Control (FCTC)". This treaty and its programmes are constantly pushing governments towards extreme tobacco control. Various governments are faced with challenges of balancing enormous socio-economic considerations against health hazards associated with the tobacco sector. India is one of the earliest signatories to the WHO-FCTC and most of the policy actions at government level are guided by this convention.

Various writ petitions challenging the Government's decision to implement 85% GHW on both sides of the cigarette pack with effect from 1st April, 2016, have been heard by the Honourable High Court of Karnataka and its judgement is reserved. In the meantime, the Industry has implemented the regulatory requirement to print new set of picture on the packs with effect from 1st April, 2017.

Illicit cigarettes are posing serious threat to the industry as well as government revenues as, 1 in every 5 cigarettes sold is illicit in the country. While requesting the government to direct its attention towards curbing the menace of illicit cigarettes, your Company will always remain committed to regulatory adherence by being a responsible corporate entity.

SEGMENTWISE PERFORMANCE IN 2016-2017

Cigarettes

The legal cigarette industry faced yet another challenging year. On one hand it faces competition from lightly taxed tobacco products like bidis, chewing tobacco, gutkha, etc. and on the other hand the illicit cigarette market continues to grow unabated. Despite these constraints, your Company was able to maintain its domestic sale volumes at the last year's level though the share of economy segment of 64mm brands has increased at the cost of its 69mm brands. This was made possible by your Company's relentless pursuit of value creation through new product launches with capsule filters and other differentiations.

Your Company will continue to pursue growth by focusing on portfolio expansion to accommodate varying consumer preferences and by increasing its geographic footprint through expanded distribution infrastructure, accelerated digital capabilities and cost optimization.

Tea

The domestic packaged and bulk tea business achieved a turnover of Rs. 105 crores which was slightly better than previous year. Your Company continued to focus on regional consumer taste preferences to drive demand of its products across its key markets. This approach augmented with strengthened feet on street for better sales reach, has resulted in consistency in sales despite stiff competition from local brands.

In an effort to drive long-term growth, your Company invested in modernization of its Bazpur (Uttarakhand) manufacturing unit with the aim to enhance its compliance to regulatory, safety and quality standards. To further accelerate the growth momentum, your Company will continue to focus on consumer and trade preferences and better availability of its products through targeted consumer engagement, acquisition and loyalty and use of digital media.

Your Company received the award for the 'BEST COMPANY IN FOOD SAFETY' at the ASSOCHAM Food Excellence Awards, 2017.

Chewing Products

Your Company's Chewing Products business showcases a breakthrough year with a record 70% growth in sales revenue, growing from Rs. 151 crores to Rs. 258 crores in 2016-17. It was a year in which your Company made significant inroads into capturing market share in both the premium and mid-premium segments of the Pan Masala Industry and laid the platform for continuous growth across 2017-18 as well. Your Company believes in the process of constant improvement and unrelenting consumer focus, and will continue to deliver consistently high quality products to the consumers by understanding his unfulfilled needs. Through consistent delivery of a high quality product supported by efficiency in distribution and consumer acquisition, your company was not only able to capture a majority segment share in Gujarat, but also developed newer geographies like Odisha, Jharkhand and West Bengal which constituted 35% of national volumes.

Pan Vilas, your Company's flagship brand, continues to hold strong share in the premium segment with over