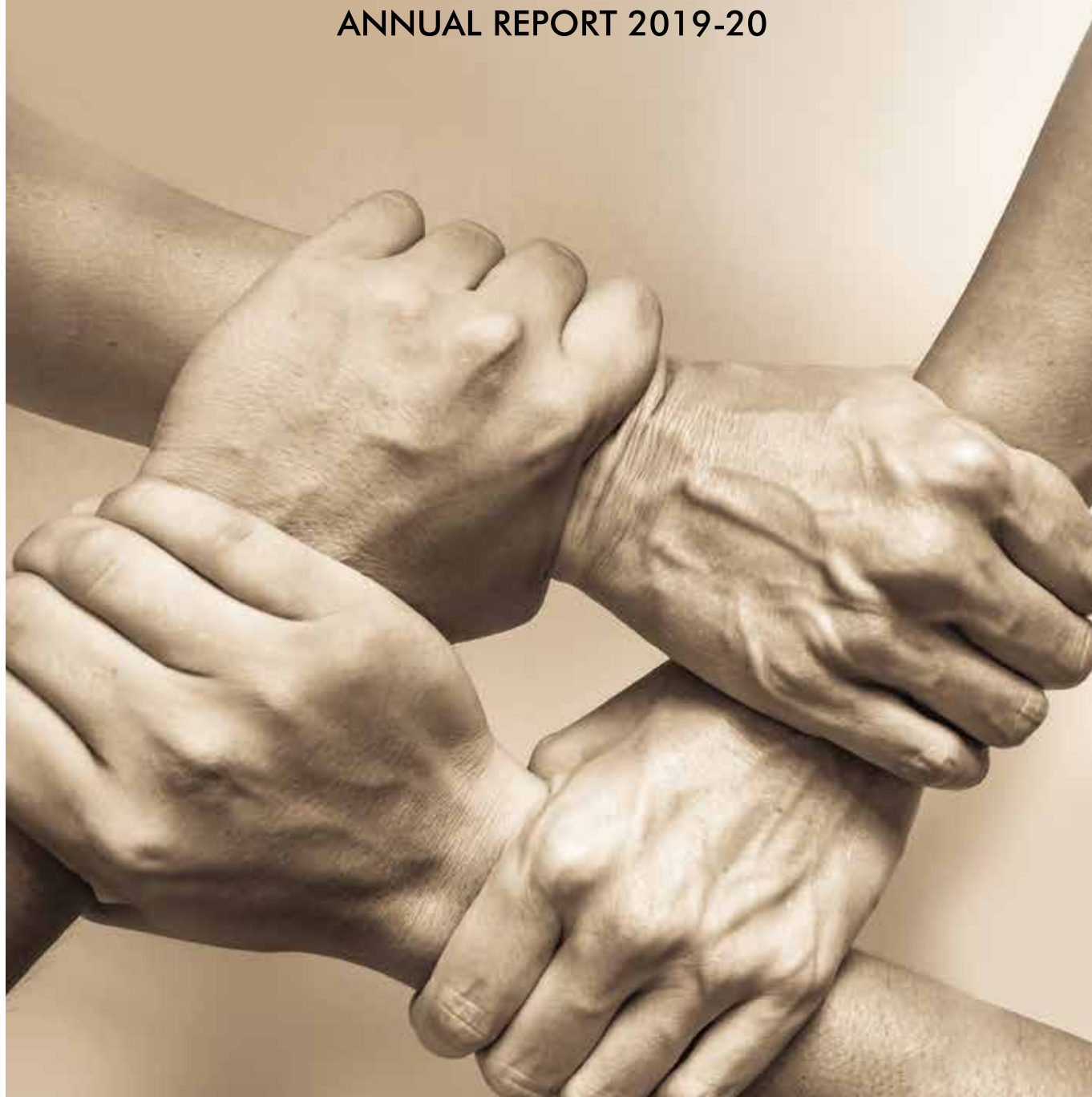




GODFREY PHILLIPS
—INDIA LIMITED—

STRONGER TOGETHER

ANNUAL REPORT 2019-20





STRONGER TOGETHER

As we take a look at the year that has been and chart our future journey ahead, we must acknowledge the incredible spirit of togetherness that has shone through these unexpectedly challenging times. The past few months redefined the economic landscape, and threw up some unprecedented challenges. Creating an environment that asked us to rethink the way we communicated, worked together or even conducted our business. However, our team members displayed commendable flexibility, rising to every challenge.

This spirit of OneGPI did not just carry us through these testing times, but also enhanced our conviction that our shared strength was what would help us stay ahead of the curve. Together, as management, colleagues and stakeholders, we set our sights on success and forged a resilience against all odds. We applaud the courage, the tenacity and unfaltering faith, the proactive spirit, that kept us going strong even during the times that we were apart. Today, we have emerged stronger with the realisation that together, we can achieve anything we set our minds to.

We step forward with the assurance that our stakeholders and partners remain our underlying strength. As they have always been.

And now, more than ever.

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
Business Responsibility Report	60
Auditor's Report	68
Balance Sheet	80
Statement of Profit and Loss	81
Statement of changes in equity	82
Cash Flow Statement	83
Notes to the Financial Statements	84
Consolidated Financial Statements	136

Corporate Information

Board of Directors

MR. R. A. SHAH - CHAIRMAN

(DIN 00009851)

DR. BINA MODI - PRESIDENT & MANAGING DIRECTOR

(DIN 00048606)

MR. SAMIR MODI - EXECUTIVE DIRECTOR

(DIN 00029554)

MR. SHARAD AGGARWAL - WHOLE-TIME DIRECTOR

(DIN 07438861)

MR. RUCHIR KUMAR MODI

(DIN 07174133)

DR. LALIT BHASIN

(DIN 00001607)

MR. ANUP N. KOTHARI

(DIN 00294737)

MR. ATUL KUMAR GUPTA

(DIN 01734070)

MRS. NIRMALA BAGRI

(DIN 01081867)

CHIEF FINANCIAL OFFICER

Mr. Sunil Agrawal

COMPANY SECRETARY

Mr. Sanjay Gupta

REGISTERED OFFICE

'Macropolo Building', Ground Floor,
Dr. Babasaheb Ambedkar Road, Lalbaug,
Mumbai-400 033

CORPORATE OFFICE

Omaxe Square, Plot No 14, Jasola District
Centre, Jasola, New Delhi-110025

OTHER OFFICES

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

LEAF DIVISION

Guntur (Andhra Pradesh)

STATUTORY AUDITORS

S.R. Batliboi and Co. LLP, Chartered Accountants

INTERNAL AUDITORS

Lodha and 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 and Co.

BANKERS

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

CORPORATE IDENTITY NUMBER

L16004MH1936PLC008587

www.godfreyphillips.com



R. A. SHAH

Chairman's Message

Dear Shareholder,

Godfrey Phillips started the fiscal year 2020 on a positive note after registering highest ever gross sales in the quarter and continued its momentum during the year. The Company registered strong domestic cigarette volume growth for the third consecutive year. Our share of the domestic cigarette market has increased from 11.8% in FY 2019 to 12.9% in FY 2020. Our international business registered the robust growth of 21.1%, primarily driven by exports of unmanufactured tobacco and cut tobacco. Our 24Seven convenience stores have also registered a robust gross sales growth of 33.2% and contributed 10.8% to the net sales. As a part of our core strategy, we are focused on enhancing operational efficiency at store level and therefore limiting ourselves from adding new stores. The total number of stores count was 103 at the end of March 2020. Overall, the Company delivered strong operational and financial performance during FY 2020 despite the challenging macroeconomic environment.

The global economy continued to face several headwinds during 2019 as a result of trade policy uncertainties, heightened geopolitical tensions, weaker industrial output and demand. The overall economic slowdown has impacted the world output which declined to 2.9% in 2019 from 3.6% in 2018. Emerging markets were affected by country specific factors adversely impacting demand and growth. The start of 2020 was challenging with the outbreak of COVID-19 pandemic around the globe causing an unprecedented health crisis. The various measures adopted by governments such as lockdown, restricted trade policy, partial closure of manufacturing facilities have resulted in lower business activity and have impacted business sentiments. Major central banks have offered monetary stimulus packages to better position countries to overcome the challenging business environment, however recovery is expected to be slow.

India's GDP growth declined to 4.2% in FY 2020 from 6.8% in FY 2019, due to the stress in the non-banking financial sector and a decline in credit growth. Low rural wages, tightening of credit facilities and rising unemployment have led to low demand for goods and services. The pandemic worsened an already contracting economy. The resulting lockdown adversely impacted supply and demand and brought manufacturing and service activity to a complete standstill. The Government of India has issued two stimulus packages to further strengthen the economy in March and May 2020.

The consumer and retail sector continues to flourish, due to India's young demographic profile and large consumer market. The young population and lower median age compared to other countries present strong growth dynamics to the consumer and retail sector. Growth in household earnings and large working population have led to increased demand and supply and discretionary spending. Technological advancement, deeper internet penetration, urbanization, preference for convenience-based services and increased disposable incomes have led to changes in consumer spending and consumption patterns. The lockdown has led to an increase in demand for FMCG and household products. Companies, however are facing lower inventory levels and disruptions in supply chain and manufacturing facilities. This will lead to a slowdown in growth. Consumer patterns have seen drastic shifts as more importance is given to essential products and discretionary spending is minimised.

I am delighted to report that the Company has been ranked 29th on India's Best Companies to Work For in 2020 as compared to 37th last year. We have also been recognised amongst India's Top 30 Manufacturing Places to Work For. With that in mind, I would like to take this opportunity to thank the senior management, all our employees, customers, channel partners, distributors and shareholders for their unwavering support and vote of confidence in Godfrey Phillips.

Lastly, the demise of Mr. K.K. Modi during the year has left all of us deeply saddened. He was truly an inspirational leader, strategic visionary and a philanthropist. He leaves behind a rich legacy and will continue to inspire us in the years ahead and I pray that his soul rests in peace.

With best wishes and warm regards,

R. A. Shah



BINA MODI

President's Message

Dear Shareholder,

Please allow me to begin by paying tribute to Late Shri K.K. Modi, our legendary and visionary President and Managing Director who was at the helm of affairs of the Company for almost four decades. I strongly believe that the rich legacy left behind by him and the strong work culture embedded with deep familial values that he built during his tenure, will keep inspiring us and give us enough resilience to bounce back from any adversity in future.

Also, I wish to take this opportunity to express my sincere gratitude to you for appointing me to the position left vacant by the untimely demise of Shri K.K. Modi.

I am pleased to report that Godfrey Phillips delivered Gross Sales of Rs. 7,144 Crore (inclusive of taxes) in the fiscal year 2019-20, representing an annual increase of 15.3%. This was primarily driven by a 10.0% growth in cigarette domestic volumes and our International Gross Sales also grew by 21.1%, due to an increase in leaf and cut tobacco exports. The Company delivered a Net Profit of Rs. 388 Crore, a growth of 61.0% over the previous year, and we are proud that we have been able to register growth across all the segments in which we operate. In light of our financial performance during FY 2020, the Board of Directors was pleased to recommend an interim dividend of Rs. 24 per share in March and the same is treated as the final dividend for the year.

Despite a challenging economic environment and operating in a highly regulated industry, Godfrey Phillips delivered strong volume growth along with a better product mix and improved realizations, while the overall industry volumes remained largely flat. Our focus on expanding the core business of tobacco, through geographic expansion into the high potential markets of southern India, is on track and we continue to invest in and develop local sales and distribution infrastructure. Exports of unmanufactured tobacco and cut tobacco also increased significantly and supported the Company's revenue growth in the fiscal year. In chewing business our strategy is to focus on the premium pan masala category and phase out mid-premium pan masala products in order to improve the profitability of the business.

Our retail convenience store chain, 24Seven, delivered robust growth during the year with Gross Sales increasing by 33.2% to Rs. 410 Crore in FY 2020. The year marked the completion of the consolidation phase and we now have a strong supply chain platform, broad geographic presence of stores and well-established brand recall among customers. We are now prepared to embark upon a journey of expansion in the next phase, where we will not only expand our current 100+ stores spread across Delhi, NCR and Chandigarh but also improve store level profitability.

The outbreak of the COVID-19 pandemic at the end of the fiscal year has greatly impacted the economy and all businesses; tobacco companies and traders were also affected as the industry was preparing for the tobacco procurement season. During this crucial time, the safety of our employees was and still is our top priority and the Company is following the appropriate health guidelines and precautions at all factories and offices. The uncertainty surrounding this pandemic tested the capabilities of our management team, who went on to successfully ensure that the key processes of manufacturing, sales and distribution continued to remain resilient and delivered for the Company. Although the normalcy in the business operating environment is still some distance away from being completely restored, we are trying our best to reach to the pre-COVID level sales trajectory in the domestic markets as soon as possible.

Godfrey Phillips has always endeavoured to maximise the creation of shared values and our dedicated CSR team has undertaken various initiatives to support and educate tobacco producing farmers, through better sanitation, health camps, education to children, safe drinking water and ensuring the welfare of these farmers.

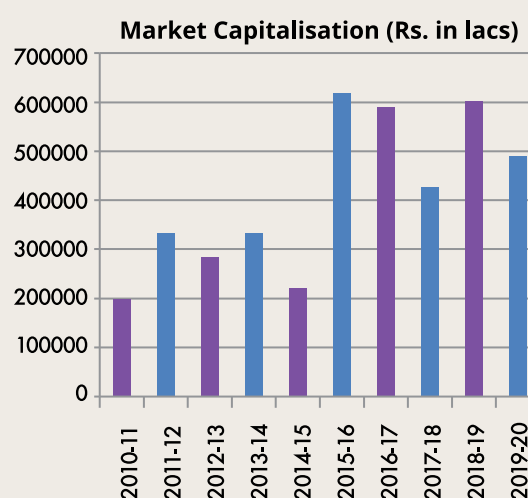
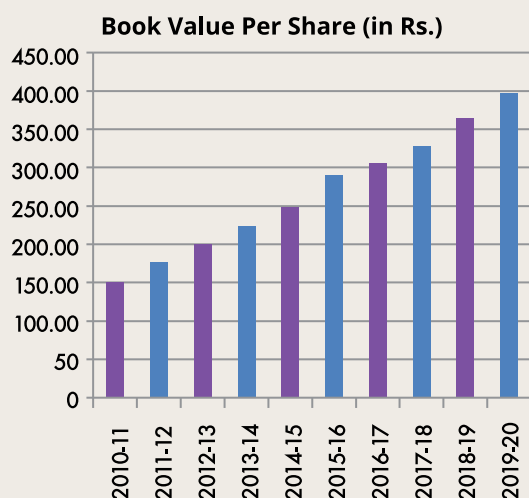
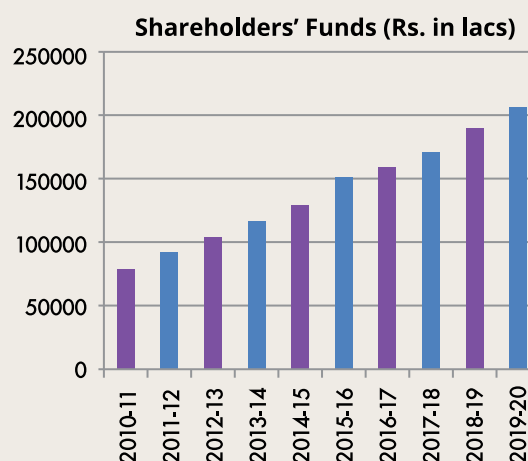
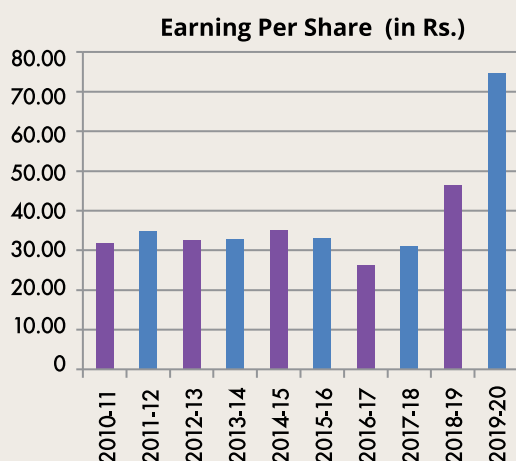
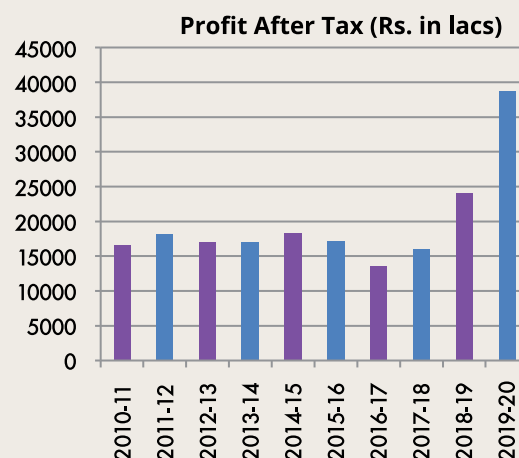
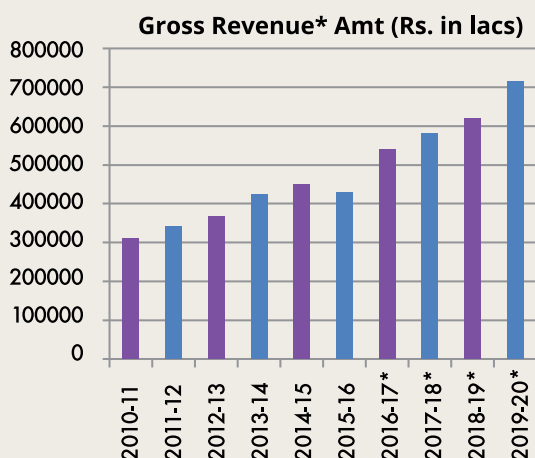
Your Company remains fully committed to its core business of tobacco and accordingly, we have opted for geographic expansion into high potential markets and developed clearly charted business plans for each of our operating segments. Improved profitability will be at the heart of our growth strategy and will be achieved by driving a mix of improvements, such as developing deep consumer insights, improving innovation capabilities and cost optimization measures.

I would like to end by taking this opportunity to thank all our customers, business partners, distributors, employees and shareholders for their support and contribution in making Godfrey Phillips what it is today.

Warm regards,

Bina Modi

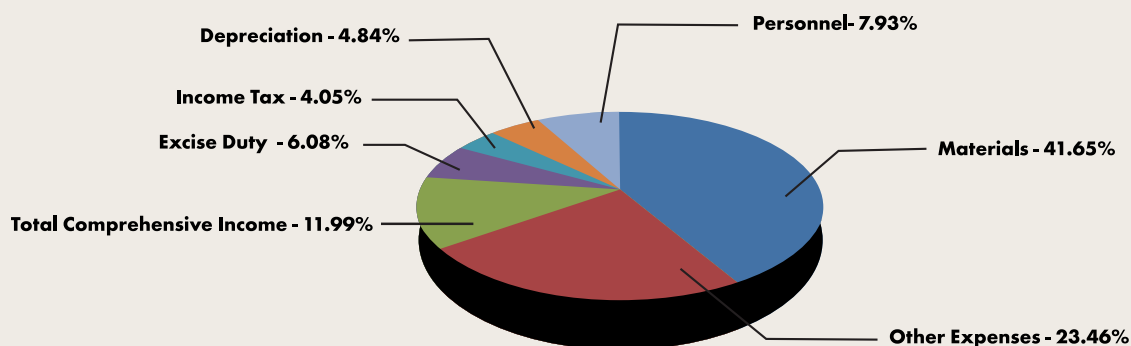
Financial Highlights Trends



*Gross revenue figures for the financial years 2016-17, 2017-18, 2018-19 and 2019-20 include all applicable indirect taxes.

Financial Highlights

Revenue Distribution



(Rs. Lakhs)

PARTICULARS	2019-20*	2018-19*	2017-18*	2016-17*	2015-16*	2014-15	2013-14	2012-13	2011-12	2010-11
CAPITAL EMPLOYED										
Property, Plant and Equipment (including Capital Work-in-Progress, Intangible Assets, Intangible Assets under development & Investment Property)	68348	67983	65001	68709	72434	71393	71694	71887	67443	47387
Right of use Assets****	34475	—	—	—	—	—	—	—	—	—
Investments	118992	114267	89516	50006	39588	32238	35529	31853	35833	32314
Other Assets(net)	20085	11703	18955	47504	50719	51634	32052	31172	21016	21797
Deferred Tax Assets (net)	-	—	—	180	1186	1653	973	—	752	79
Total	241900	193953	173472	166399	163927	156918	140248	134912	125044	101577
FINANCED BY										
Shareholders' Funds	206085	189627	170728	159183	150964	129262	116370	104172	92091	79025
Borrowings	1114	4118	2672	7216	12963	27656	23878	30356	32953	22552
Lease Liabilities****	34459	—	—	—	—	—	—	—	—	—
Deferred Tax Liabilities (net)	242	208	72	—	—	—	—	384	—	—
Total	241900	193953	173472	166399	163927	156918	140248	134912	125044	101577
OPERATING PERFORMANCE										
Gross Revenue	315102	267103	293027	444281	429876	448589	422067	367282	341858	310838
Excise Duty	19144	11499	56509	200923	195922	196897	171653	157777	146058	146768
Depreciation	15238	9592	9565	9413	10220	10226	8655	8800	6263	4000
Profit Before Taxation	51590	36264	23429	19777	24562	27140	25468	23690	25723	24147
Profit After Taxation	38788	24097	16076	13635	17166	18308	17064	16948	18136	16603
Total Comprehensive Income**	37769	23914	16551	13226	16947	—	—	—	—	—
Proposed Dividend/Interim Dividend	12479	5199	4159	4159	4159	4159	4159	4159	4159	3640
Corporate Dividend Tax	2565	1069	855	847	847	847	707	707	675	590
INVESTORS' DATA										
Earning Per Equity Share (Rs)***	74.60	46.35	30.92	26.22	33.02	35.21	32.82	32.60	34.88	31.93
Dividend Per Equity Share (%)	1200	500	400	400	400	400	400	400	400	350
Number of Shareholders	22371	19079	21707	20000	16825	16169	11137	10839	11125	11242

* The figures reported are Ind AS compliant.

** Total Comprehensive Income reported as per requirement under Ind-AS.

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

****Right of use assets and Lease liabilities in F.Y. 2019-20 upon transition to Ind AS-116, "Leases".

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors are pleased to present the 83rd Annual Report on the business and operations along with the Audited Financial Statements of the Company for the financial year ended March 31, 2020.

ECONOMIC ENVIRONMENT

The global economic growth decelerated to 2.4% in 2019 from 3.0% in 2018 due to overall economic slowdown, sluggish demand, weaker trade and investments. The second half of 2019 saw an increase in geopolitical tensions and the resulting trade policy uncertainty negatively impacted global economic activity, especially for manufacturing and trading. Country specific factors weighed heavily on demand, weakening the growth outlook for emerging markets in particular.

The unfortunate outbreak of COVID-19 pandemic at the start of 2020 instigated an unprecedented health and economic crisis around the world. The lockdowns and restrictions in movement and travel have had far reaching effects on global economic activity. Widespread outbreaks and containment measures deployed by various governments have seen the projected growth of developed economies contract by 6.1%. In addition to the unprecedented health crisis, emerging markets have to manage tighter financial conditions, massive external demand shocks and volatile commodity prices. Emerging markets are expected to contract by 1.0% in 2020, while China is expected to contract by 2.2%. The economic fallout from the pandemic has resulted in extreme uncertainty around forecasting growth prospects of various economies, industries and companies. Major central banks have taken significant steps to reduce systemic stress by offering large scale monetary stimulus packages and lending facilities. These central bank policies aimed to strengthen confidence levels, contain the impact of the pandemic and also better position countries for rapid economic recovery. In view of the market challenges, the IMF has revised its Global GDP forecast to a decline of 3.0% in 2020, with the global economy likely to experience a severe recession.

India's GDP growth declined from 6.8% in 2018-19 to 4.2% in 2019-20, lowest in seven years. The growth was impacted due to overall global economic slowdown, slower consumer demand and subdued sector performance including auto sector which is going through the worst downturn and slowdown in real estate, construction and manufacturing sector. India's already contracting economy was further impacted by the outbreak of Covid-19 in India in the last week of March 2020. In order to curb the further outbreak of Covid-19, the Government of India announced nationwide lockdown at the end of March 2020 which temporarily brought all economic activity to a standstill across India.

The lockdown resulted in temporary closure of factories, disrupted business activities and transportation challenges impacted the supply chain. In response to the economic slowdown, the Reserve Bank of India cut repo and reverse repo rates, to ensure banks continued to lend, and injected further liquidity into the Indian banking system in April 2020. In addition to this, The Government of India issued two stimulus packages to further strengthen the economy in March and May 2020. Despite the overall challenging macroeconomic environment, Indian economic activity has started to pick up from the month of June 2020. The economic growth is expected to be slow and will depend on the course of Covid-19 in the near term.

TOBACCO INDUSTRY

India is the second largest producer of tobacco in the world and reaps enormous benefits in terms of employment in the agricultural sector, income to farmers, revenue generation and foreign exchange earnings. India is also the largest exporter of tobacco and tobacco related products. Various varieties of tobacco are grown across 13 states in the country. The industry also provides direct and indirect employment to 45.7 million people, of which 70% are from the agricultural sector.

Sustainability has become an important aspect of leaf tobacco business in India with rigorous steps taken to ensure that sustainability is practised across the entire supply chain. This approach has contributed significantly to the business success of the Indian leaf tobacco business entities. Sustainability is achieved through various farming initiatives, in order to bring about best practices and improve efficiency of the tobacco growing process without adversely impacting the environment.

Only 9% of tobacco consumed in India constitute legal cigarettes, while 91% are from traditional products and illegal cigarettes. This 9% contributes to 80% of the taxes collected by the Government of India from the tobacco sector. High levels of taxation relative to other tobacco products and stringent regulations have also led to the rise in the illicit cigarette trade and consequent loss of revenue to the government. Around 68% of tobacco consumption comes from the unorganised sector which bypasses the purview of the regulatory authorities and do not pay taxes.