



GODFREY PHILLIPS
—INDIA LIMITED—

ANNUAL REPORT 2021 - 22

TOGETHER WE CONQUER



ANNUAL REPORT 2021-22

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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)

DR. LALIT BHASIN

(DIN 00001607)

MR. ATUL KUMAR GUPTA

(DIN 01734070)

MRS. NIRMALA BAGRI

(DIN 01081867)

MR. SUMANT BHARADWAJ

(DIN: 08970744)

MR. SUBRAMANIAN LAKSHMINARAYANAN *

(DIN: 02808698)

*Additional Director w.e.f. 28th May, 2022

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

BANKERS

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

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.

CORPORATE IDENTITY NUMBER

L16004MH1936PLC008587

www.godfreyphillips.com

R. A. SHAH

Chairman's Message



Dear Shareholders,

As we look back at last couple of years, the macroeconomic conditions globally remained challenging, with subsequent waves of Covid-19 impacting the economic activity and business sentiments. Despite headwinds, the GDP in many countries registered a strong recovery in 2021 following a sharp decline in 2020, driven by governments' fiscal, monetary support and pent-up demand. The global GDP output increased by 6.1% in 2021 compared to 3.1% de-growth in 2020. Similarly, emerging and developing economies registered a GDP growth of 6.8% in 2021 compared

to de-growth of 2.0% in 2020. However, the recovery momentum was short lived with the escalation of Russia-Ukraine conflict at the start of 2022. This conflict, though localized, is expected to have unpredictable and undesired implications on the world-wide economies. The sanctions on Russia has impacted the global trade coupled with sharp rise in commodity and fuel prices and has eventually led to higher inflation and dampened the global economic outlook.

The Indian economy was one of the fastest growing economies with GDP growth of 8.9% in 2021 compared to a decline of 6.6% in 2020. The rebound was backed by India's strong underlying fundamentals such as rising consumerism, pick up in manufacturing activity under Aatmanirbhar Bharat initiatives and prudent fiscal and monetary policies. During first half of the year, second wave of Covid-19 severely impacted the lives of many. However, its economic impact was limited due to mini lockdown restrictions put in place by the States to curb the infection and continued growth momentum was visible across industries in second half of the year. The ongoing global macroeconomic challenges pose a near term threat but, the growth outlook remains positive on the back of increase in government spending on infrastructure development, thrust on manufacturing, growing consumer confidence, tackling supply side issues and focussing on revival in demand.

The fiscal year 2021-22 for the Company, started on a relatively challenging note with pandemic impacting the very first quarter, but steady recovery was visible in the subsequent quarters. Amidst the evolving market conditions, I am pleased to announce that the Company has delivered a strong performance during the year. It has reported Gross Sales Value of Rs. 7,325 Crores, registering a growth of 14.3% on year-on-year basis. Domestic cigarette Gross Sales Value was Rs. 6,212 Crores and International Business driven by export of unmanufactured tobacco registered revenues of Rs. 562 Crores. Our 24Seven Convenience Stores remained opened during the 2nd and 3rd waves of Covid-19 providing essential goods to consumers and store count increased to 105 at the end of year.

Tobacco Industry has also recovered gradually during the fiscal year with rise in footfalls consequent to easing of lockdown restrictions and improving business environment. India maintains its position as the second largest tobacco producer after China and the industry is primary livelihood source for millions of farmers and their families across the country. We remain conscious of our corporate social responsibility and are striving towards holistic growth by supporting the communities through various social initiatives.

Overall, your Company's strong performance during the year is a result of various factors ranging from economic recovery, revival in business activity and dedicated efforts of management on strengthening the core business, focus on product innovation and investment in sales and distribution network, both domestic and international. At Godfrey Phillips, we are well positioned to leverage India's growing consumer market and remain optimistic on maintaining the growth momentum.

I am proud to report that Godfrey Phillips has again been recognized as a 'Great Place to Work' for fourth consecutive year in a row. Also, we are conferred among India's Best Workplaces in Manufacturing in the 'Great Place to Work survey in 2022' for third consecutive time. The awards acknowledge and celebrate an inclusive and strong work culture that we are building at your Company.

Finally, the strong performance during FY22 was made possible by the efforts of all our employees and senior management team. I would like to express my gratitude for their commitment and determination in achieving these results. I also extend my gratitude to all our stakeholders for their continued support and the Board for its valuable guidance and would like to thank the customers, channel partners, farming community, and shareholders for their steadfast support and confidence.

Warm regards,

R. A. Shah

BINA MODI

President's Message



Dear Shareholders,

The fiscal year 2021-22 had started on a volatile note with second wave of Covid-19 pandemic impacting the lives of many in its very first quarter. However, the strong recovery was visible in the subsequent quarters, supported by increased government spending, favourable monetary policy support, improved consumer confidence and greater consumer spending. Yet, the year was impacted by a global pandemic, supply chain disruptions, heightened geo-political conflicts, cross-border trade interruption and sharp increase in fuel and commodity prices.

Godfrey Phillips has shown remarkable resilience and delivered a strong performance during the year, despite the challenging macroeconomic conditions. The Company's focus was on remaining agile, making positive changes to the business and adopting long term customer-centric approach to growth. We remained committed to ensuring wellbeing of our employees by creating a positive workplace environment and culture of inclusion and diversity. We are proud to be recognized as 'India's Best Companies to Work For', a feat achieved for the fourth consecutive year in a row.

In FY22, your Company reported standalone Gross Sales Value of Rs. 7,325 Crore, representing an increase of 14.3% year on year. Despite the headwinds prevailing for most part of the year, we have been able to sustain and improve operating EBITDA margins to 8.6% from 8.1% in FY21. Net profit for the year was Rs. 432 Crore, a growth of 21.0% y-o-y. Considering the strong financial performance, Board of Directors has recommended a dividend of Rs. 28 per share, as compared to Rs. 24 per share paid for the last financial year.

The Company's overall performance was augmented by the broad-based growth across business segments. The tobacco industry, in general, has recorded strong growth compared to last fiscal year due to recovery in out of home consumption with easing of Covid-19 restrictions. In line with the market, your Company registered Gross Sales of Rs. 6,212 Crore for its domestic cigarette on the back of our strong brand portfolio and propelled by gain in market share in key geographies.

Our International Business division registered Gross Sales of Rs. 562 Crore. The segment was initially impacted due to logistics hurdles but gradually the export of unmanufactured tobacco picked up and supported the top-line growth. We continue to focus on expanding our international footprint to further enhance sale of own brands of cigarettes and export of unmanufactured tobacco.

Chewing and Confectionary Business division registered Gross Sales of Rs. 106 Crore. Our strategy continues to focus on the premium pan masala segment led by Pan Vilas which is expected to drive volumes and revenue growth. In confectionary, we have expanded our product portfolio by introducing new innovative candy called FUNDA C during the year, which has received encouraging response from the consumers and focussed on distribution and availability of Naturalz Imli candy.

Godfrey Phillips convenience store chain "24Seven", registered Gross Sales of Rs. 405 Crore, delivering growth of 14% y-o-y. The performance was driven by increase in customer footfall with the easing of Covid-19 restrictions, resumption of offices and improving demand scenario. We have increased our store count from 93 in FY21 to 105 in FY22 and our business team remains steadfast to enhance store level profitability.

Overall, your Company's performance during the year is a culmination of business teams' dedicated efforts in expanding our market presence, strengthening core manufacturing capabilities and improving operating efficiency. We are committed to evolve and grow our business in line with the changing consumer preferences, penetrate even deeper into key markets and expand our physical distribution footprint both in India and internationally. Our management team remains confident of sustaining the growth momentum backed by strong underlying fundamentals of the business and increasing growth opportunity in core business segments led by favourable industry dynamics such as rising consumerism, digitalization and increasing disposable income.

I would like to thank the leadership team of Godfrey Phillips and all the employees for their relentless commitment in the difficult times and enabling the Company to deliver strong performance. I sincerely thank the Board of Directors for providing their valuable guidance in shaping the Company and would like to thank all our consumers, partners, distributors, and shareholders for their continued trust and confidence in the Company.

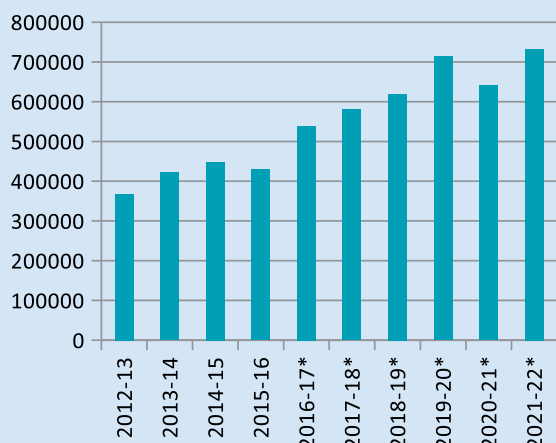
Warm regards,

Bina Modi

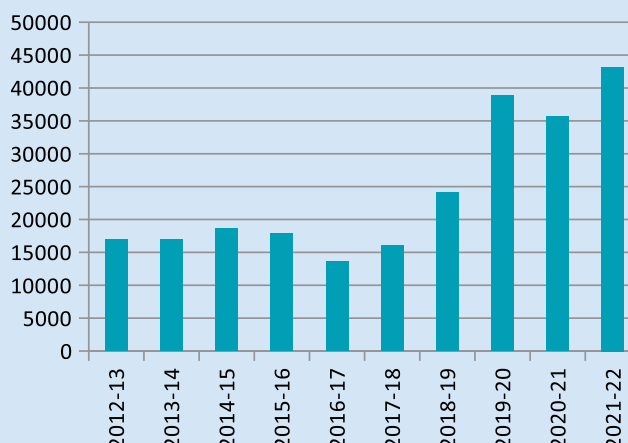
Financial Highlights

Trends

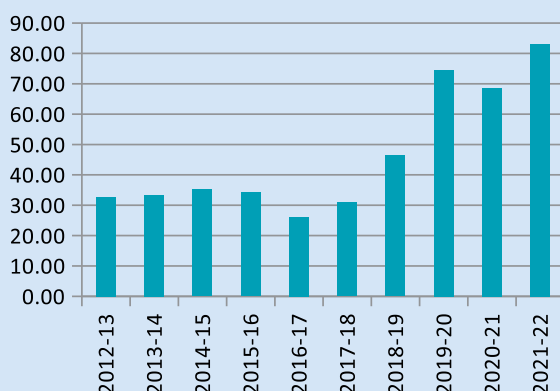
Gross Revenue* (Rs. in lakhs)



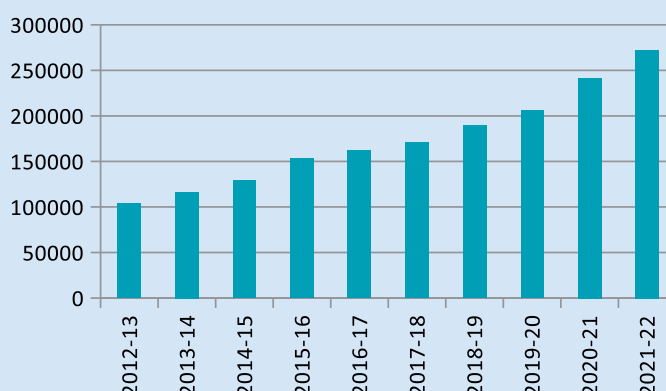
Profit After Tax (Rs. in lakhs)



Earning Per Share (in Rs.)



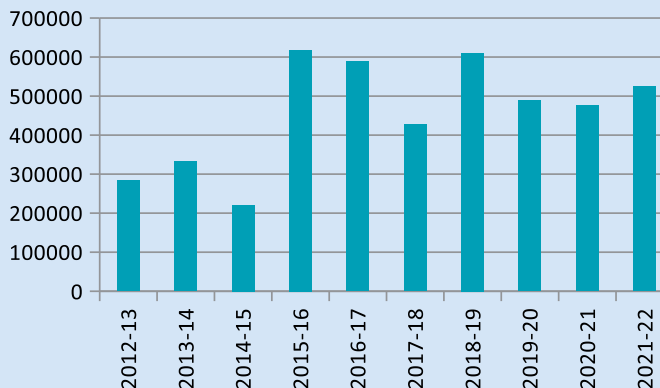
Shareholders' Fund (Rs. in lakhs)



Book Value Per Equity Share (in Rs.)



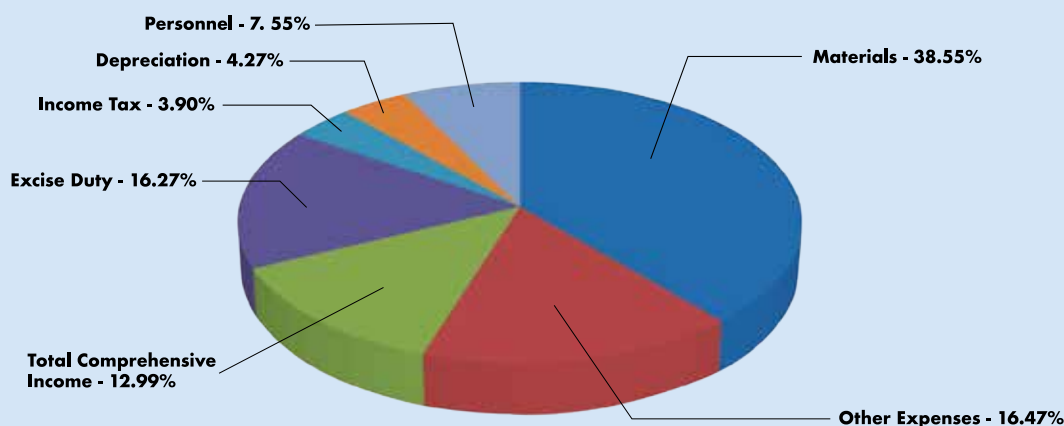
Market Capitalization (Rs. in lakhs)



*Gross Revenue figures for the financial years 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22 includes all applicable indirect taxes.

Financial Highlights

Revenue Distribution



(Rs. Lakhs)

PARTICULARS	2021-22*	2020-21*	2019-20*	2018-19*	2017-18*	2016-17*	2015-16*	2014-15	2013-14	2012-13
CAPITAL EMPLOYED										
Property, Plant and Equipment (including Capital Work-in-Progress, Intangible Assets, Intangible Assets under development & Investment Property)	71553	72667	68348	67983	65001	68709	72434	71393	71694	71887
Right of use Assets ****	27697	30380	34475	-	-	-	-	-	-	-
Investments	171870	147584	118992	114267	89516	50006	39588	32238	35529	31853
Other Assets (net)	35350	31166	20085	11703	18955	47504	50719	51634	32052	31172
Deferred Tax Assets (net)	-	-	-	-	-	180	1186	1653	973	-
Total	306470	281797	241900	193953	173472	166399	163927	156918	140248	134912
FINANCED BY										
Shareholders' Funds	272369	241643	206085	189627	170728	159183	150964	129262	116370	104172
Borrowings	2978	7490	1114	4118	2672	7216	12963	27656	23878	30356
Lease Liabilities****	30602	31969	34459	-	-	-	-	-	-	-
Deferred Tax Liabilities (net)	521	695	242	208	72	-	-	-	-	384
Total	306470	281797	241900	193953	173472	166399	163927	156918	140248	134912
OPERATING PERFORMANCE										
Gross Revenue	332582	304344	315102	267103	293027	444281	429876	448589	422067	367282
Excise Duty	54104	43609	19144	11499	56509	200923	195922	196897	171653	157777
Depreciation	14216	13845	15238	9592	9565	9413	10220	10226	8655	8800
Profit Before Taxation	56160	46495	51590	36264	23429	19777	24562	27140	25468	23690
Profit After Taxation	43197	35694	38788	24097	16076	13635	17166	18308	17064	16948
Total Comprehensive Income**	43204	35558	37769	23914	16551	13226	16947	-	-	-
Proposed Dividend / Interim Dividend	14558	12479	12479	5199	4159	4159	4159	4159	4159	4159
Corporate Dividend Tax	-	-	2565	1069	855	847	847	847	707	707
INVESTORS' DATA										
Earning Per Equity Share (Rs)***	83.08	68.65	74.60	46.35	30.92	26.22	33.02	35.21	32.82	32.60
Dividend Per Equity Share (%)	1400	1200	1200	500	400	400	400	400	400	400
Number of Shareholders	30821	37921	22371	19079	21707	20000	16825	16169	11137	10839

* 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.

**** Upon transition to IndAS-116, "Leases" w.e.f. 2019-20

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors are pleased to present the 85th Annual Report on the business and operations along with the Audited Financial Statements of the Company for the financial year ended March 31, 2022.

ECONOMIC ENVIRONMENT

Global economic activity recovered strongly in 2021 following a sharp contraction in 2020 due to unprecedented Covid-19 crisis which quickly morphed into financial crisis. World GDP output recorded a robust growth of 6.1% in 2021 compared to a decline of 3.1% in 2020. The US economy registered a GDP growth of 5.7% in 2021 compared to de-growth of 3.4% in 2020 and European economy GDP recorded growth of 5.3% in 2021 compared to de-growth of 6.4% in 2020. In Asia, China recorded a GDP growth of 8% in 2021, compared to 2.3% in 2020. Overall, the growth was primarily driven by pick up in the economic activity backed by higher vaccination rates, robust consumer spending and increase in investment which was further supported by government's favourable monetary and fiscal policies. However, high commodity and fuel prices, rising debt level and spiraling inflation across the world continues to add pressure on the economic activity. The growth momentum slowed considerably by the end of 2021, including economies such as China, European Union and United States, due to the dissipation of fiscal and monetary stimulus and major supply-chain disruptions.

The global economy enters 2022 in a weaker position due to Russia and Ukraine crisis and its implications on the world economies. As a result, the global growth is expected to moderate from 5.9% in 2021 to 3.6% in 2022. Furthermore, the ongoing geopolitical tension and increasing trade sanctions continue to add to the series of supply shocks that have hit the global economy over the course of the pandemic, contributing to more shortages beyond the energy and agricultural sectors. Once again, many countries have reimposed select restrictions on mobility due to the rapid spread of Covid-19 variants. A rise in energy prices and supply disruptions has led to higher and wider-based inflation than expected, particularly in the United States and many emerging market and developing economies. Overall, the impact of Russia and Ukraine crisis, the withdrawal of broad-based extraordinary policy support and central banks' initiatives to raise interest rates to curb inflation, are collectively expected to weaken the global economic activity in 2022.

The Indian economy in tandem with global economies, registered a robust recovery of 8.2% in 2021 and was one of the fastest growing economies in the world. The growth momentum was hit by the second wave of Covid-19 in April-June 2021 but its impact on the economic activity was limited due to state-wise restrictions. The broad-based recovery across sector and industries was visible from the second half of the year and the growth was well supported by Reserve Bank of India with favourable monetary policy support and greater push on infrastructure by government of India. India also registered world's largest and successful vaccination program roll-out which allowed it to contain the effects of the Covid-19, while also pursuing its goal of economic recovery. However, the escalation of Russia and Ukraine crisis has once again dampened the economic outlook. Consequently, the sharp jump in the prices of crude oil and energy, food grains and other commodity prices have led to higher inflation globally. In May 2022, the Reserve Bank of India increased the repo rate 40 bps to 4.4% in an attempt to curb the inflation. The combination of these macroeconomic headwinds has led IMF to reduce its GDP growth target to 8.2% in 2022 as compared to 9.0% projected by it in January 2022. Despite ongoing global economic volatility, India is still expected to remain one of the fastest growing economies backed by strong consumer demand and greater push on infrastructural development by government of India.

TOBACCO INDUSTRY

India is the world's second largest tobacco producer with annual production of 800 million kg and major exporter of tobacco after China and Brazil. Indian tobacco accounts for 10% of the area and 9% of the total production in the world. Tobacco farming is drought tolerant, hardy and short duration crop and contributes a major percentage of the total value of commercial crops in India generating huge socio-economic benefits in terms of agricultural employment, incomes, revenues and foreign exchange earnings. Due to its low production costs, average farm and export prices, India has an edge over other leading tobacco producer. Given that tobacco production is highly labour intensive, the tobacco industry provides employment directly and indirectly to more than 45.7 million people working in processing, manufacturing and exports of tobacco and tobacco products.

The Indian government earns foreign exchange of around Rs. 6,500 crores through export of tobacco and tobacco products. Cigarette tobacco (Flue Cured Virginia) contributes around more than 70% of India's leaf tobacco export in value terms. Tobacco products are big contributor to the government tax revenue. On the basis of last three year average, government has collected around ₹53,000 crores of tax revenue from tobacco products and 80% of tobacco tax revenue is from legal cigarettes. In India, the legal cigarettes account for 8% of the total tobacco consumption and this is in complete contrast with rest of the world where 90% of the tobacco is in the form of cigarettes. The remaining 92% contribution is from other traditional products, like chewing tobacco, bidis, Khaini etc. and illegal cigarettes.

DIRECTORS' REPORT



GODFREY PHILLIPS
—INDIA LIMITED—

Over the years, the pace of taxation on cigarettes and the regulatory framework governing the tobacco products in India, such as the 85% pictorial warnings that appear on the packs of tobacco products, have led to a significant decline in the sale of legal cigarettes in the country while illegal cigarette trade has grown significantly as they do not bear mandated warnings and consumer perceives it safer. The share of legal cigarette has declined from 21% in 1981-82 to 8% in 2020-21 despite 50% increase in tobacco consumption in India, this clearly reflects that illegal cigarette trade has increased significantly and now accounts for roughly 1/4th of the total cigarette market in India. Government continues to curb the trade of illegal cigarette through regular raids and seizures. It also focuses on stabilizing the domestic legal cigarette market and moderation in cigarette taxation may help optimize tax collection and reduce shift towards cheaper illicit cigarettes.

The tobacco and cigarette manufacturing industry were also impacted by the Covid-19 pandemic induced lockdown restrictions and was one of the industries to resume its operations at last after upliftment of Covid restrictions. The supply chain constraints, logistics problems, increased freight rates and delays in shipping schedules, all these has attributed to the decline in export of tobacco and tobacco products. Besides this, the tobacco industry is experiencing a slowdown globally due to more restrictions being placed on smoking and tobacco consumption. During the year, the cigarette demand started to recover with the opening of economy, increase in mobility and resumption of work in offices. The market serviceability also improved with the removal of inter-state restrictions and has led to recovery in the sales and demand of cigarettes.

CONSUMER AND RETAIL INDUSTRY

India's FMCG industry is the fourth-largest sector of the economy backed by its demography and growing consumerism. The Indian economy is on the path to recovery after devastating waves of Covid-19 pandemic. Many sectors of the economy are back to their pre-pandemic levels of production. The pandemic had big impact on the FMCG sector especially during lockdown where companies were focused on re-inventing their strategies for customer acquisition, market penetration and maintaining demand-supply balance. In addition, the higher adoption of technology, digitalization, door to door delivery has given fresh impetus to FMCG sector in India. Offline sales also accelerated on the back of improved store footfalls and mobility. However, the recovery is still underway with different parts of the economy improving at varying rates. The Indian FMCG sector remained resilient in 2021 and delivered a nine -year high growth of 16%. The growth was driven by continued consumer demand and higher product prices.

The retail industry in India is witnessing a fast-paced growth, with retail development penetration expanding to tier II and III cities and not restricting to metro cities. Growing awareness, rapid urbanization, increasing working population, higher disposable income and changing lifestyles are the primary growth drivers for the sector. Business activity among micro-retailers is reaching near normal levels, as they are adopting digital business tools to boost efficiency and growth. Indian retail industry remains one of the fastest growing in the world, expected to reach to US\$ 1,407 billion by 2026 compared to US\$ 779 billion in 2019 and more than US\$ 1.8 trillion by 2030. Furthermore, E-commerce is widely considered as a way to reduce penetration costs and drive convenience buying. Increasing affordability and proliferation of smartphones coupled with affordable data prices makes online platforms easier and more convenient to reach target consumers. The Government of India's initiatives such as 'Digital India' programme has contributed significantly to the growth of e-commerce segment and India is now home to more than 800 door to customer (D2C) brands and is expected to reach US\$ 101 billion by 2025.

Government of India has taken several serious initiatives to encourage the FMCG sector in India. It has announced Production Linked Incentive Scheme (PLI) as incentive plans to encourage scaling up and to boost industry. Government has approved 100% FDI in the cash and carry segment and in single-brand retail along with 51% FDI in multi-brand retail. These measures will help the sector to establish a robust supply chain and reduce the risk of disruption.

Further, the decline in unorganized markets in the FMCG sector is expected to augment the growth of organised sector mostly due to the increase in brand awareness, coupled with the growth of modern retail and convenience. Following the Covid-19 pandemic, consumers have rapidly adopted new technologies. The predominant theme in the Union Budget of 2022-23 is its strong focus on the creation and development of physical and digital infrastructure. The internet enabled companies are likely to reach a wider audience using online sales promoted by an improved infrastructure, competitive pricing and reduced marketing and outreach costs associated with a digital platform.

SEGMENTWISE PERFORMANCE IN 2021-22

Cigarettes

The domestic Cigarettes industry showcased resilience and signs of recovery in FY22 but it was hampered by the unprecedented headwinds of 2nd Wave of COVID-19. Illicit and contraband continue to impact the industry, with the lockdown period allowing enhanced penetration of illicit especially in the semi urban and smaller urban sections of India.