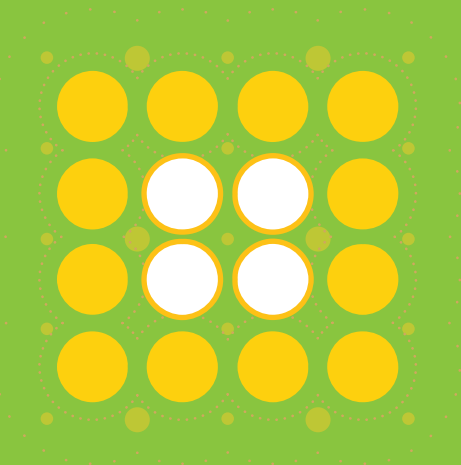


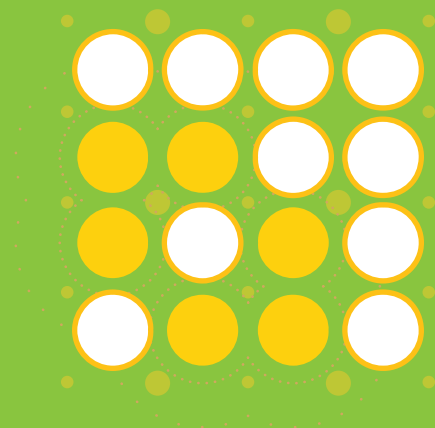


VST INDUSTRIES LIMITED

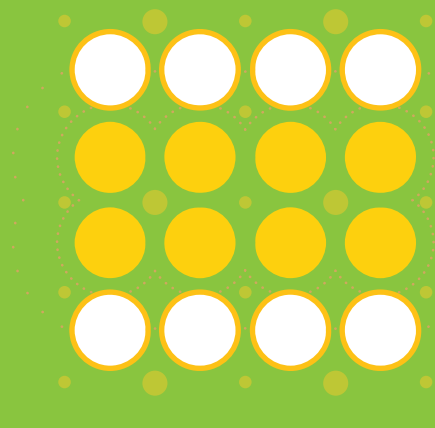
WINNING CONSISTENTLY



Consumer Centric



Growth Driven



Value Led

ANNUAL REPORT 2020-21

Contents

ABOUT VST INDUSTRIES		02
Board of Directors	02	
Management Team	03	
Chairman’s Statement	04	
Managing Director & CEO's Message	06	
Who We Are	08	
Increased National Footprint	09	
PERFORMANCE REVIEW		10
Renewed Brand Portfolio	10	
Our People	12	
VALUE CREATION		14
Opportunity Landscape	14	
Our Value Creation Model	16	
Strategic Priorities	18	
Investment Value Proposition	20	
SOCIAL AND GOVERNANCE		22
COVID-19 Response	22	
Corporate Social Responsibility	24	
STATUTORY REPORTS		28
Corporate Information	28	
Notice of Meeting	29	
Report of the Board of Directors & Management Discussion and Analysis	38	
Annexure to the Directors’ Report	50	
Business Responsibility Report (BRR)	84	
FINANCIAL STATEMENTS		88

FY21 highlights

FINANCIAL HIGHLIGHTS

₹ 1,47,289 Lakhs
Revenue

₹ 31,079 Lakhs
Net profit

₹ 94,044 Lakhs
Net assets employed

₹ 201.3
Earnings per share

₹ 114
Dividend per share

33.0%
Return on Capital Employed

NON-FINANCIAL HIGHLIGHTS

₹ 681 Lakhs
CSR expenditure

775
SMART household toilets constructed

400
Solar street lights installed

WINNING CONSISTENTLY

VST Industries Limited (VST) has been present in the Indian tobacco industry for more than 90 years. We have been a consistent performer over the years with the last half decade a standout. We have been the fastest growing cigarette company in this period. This growth has been driven by multiple first-to-market consumer relevant innovations, wider geographic footprint, and a strong focus on people and processes. This has helped VST create a vibrant brand portfolio, deliver superior returns to shareholders, and play a proactive role in community development.

Our strong fundamentals helped us deliver best ever bottom line even in a pandemic year. We further expanded our geographic footprint in spite of market disruptions. We were also able to successfully launch new brand variants that cater to changing adult smoker preferences. All this is a testimony to organisational resilience and commitment of the employees.

As the impact of the pandemic reduces and markets normalise, our aim is to remain the fastest growing cigarette company by continuing to invest in relevant product innovations, increased market presence, manufacturing modernisation, digital technologies, and people development. We stand committed to sustainable business practices, serve communities, and generate shareholder value in line with our credo of winning consistently.

Our strong fundamentals helped us deliver best ever bottom line even in a pandemic year

All this is a testimony to organisational resilience and commitment of the employees.



Board of Directors



MR. NARESH KUMAR SETHI
Non Executive Director
Chairman



MS. RAMA BIJAPURKAR
Independent Non Executive
Director



MR. SUDIP BANDYOPADHYAY
Independent Non Executive
Director



MR. RAJIV GULATI
Independent Non Executive
Director



MR. S. THIRUMALAI
Non-Executive Director



MR. ADITYA DEB GOOPTU
Managing Director & CEO

Management Team



MR. ADITYA DEB GOOPTU
Managing Director & CEO



MR. KALYAN BASU
President-Marketing



MR. ROHIT SAHNI
Vice President - Marketing



DR. T. LAKSHMI NARASIAH
Vice President-Leaf



MR. S. SRIRAM
Vice President-Technical



MR. ANISH GUPTA
Chief Financial Officer



MR. AJAY CHAUDHARY
Vice President-Digital
Transformation



MS. ISHITA BARDHAN
Chief Human Resource Officer



MR. PHANI K. MANGIPUDI
Company Secretary and Head -
Legal & Secretarial

Chairman's Statement

Demonstrating courage and determination



“FY 2020-21 was a milestone year, as we made visible progress across our strategic objectives. The Company delivered a strong performance by growing revenues in a declining volume environment, reflecting business resilience and future potential for growth on the strength of a diversified brand portfolio.”

Dear Shareholders,

I write this to you with the hope that you and your extended communities have stayed safe through one of the most challenging periods in the recent past. On our 90th year since inception, we have optimism for the future and I am deeply grateful to our stakeholders, who have supported us throughout this journey.

The COVID impact continued to have an adverse impact on the world economy, leading to a global GDP contraction of 3.3%. Correspondingly, India's GDP is expected to have declined by 7.3% during FY 2020-21. Given the concerted efforts of the government and the RBI, there is reason for optimism in the medium term.

Financial and Operational Performance

FY 2020-21 was a milestone year, as we made visible progress across our strategic objectives. The Company delivered a strong performance by growing revenues in a declining volume environment, reflecting business resilience and future potential for growth on the strength of a diversified brand portfolio. Our cigarette revenues at ₹ 1,272 Crores was up by 13%, compared to last year at ₹ 1,130 Crores. We grew our net comprehensive income by 4.2% to ₹ 312 Crores, which is the highest ever in the history of our Company. This performance is especially commendable given 16% decline in volumes mainly due to pandemic driven shutdowns in various parts of the country during the year.

Mr. Aditya Deb Gooptu took charge as the Managing Director & CEO of the Company in December 2020. We are pleased to have him lead the organisation and add value with his rich experience in the tobacco and consumer goods category. We look forward to his leadership to position VST for future growth and success.

Trends Dominating the Industry

The legal cigarette industry witnessed pandemic led volume impact. Taxation challenges remain with non-duty paid cigarettes continuing to benefit from large price distortion. The illicit cigarette market has witnessed an upward movement over the years and continues to be among the top 5 items illegally traded in the country, with India being among the largest illegal cigarette markets in the world. To battle such illicit trade, we are partnering with the industry

to identify inter-governmental efforts and public-private alliances in adopting appropriate measures like sensible taxation leading to a holistic strategy. We also engage with key stakeholders for evidence based, non-discriminatory taxation and regulations that safeguard farmer livelihoods and legal industry, while balancing economic interests and tobacco control measures.

COVID-19 Response

We prioritised the health and safety of our people above everything else this year, and complied with government guidelines and regulations to ensure that safety is never compromised. The transition to work from home mode and providing continuous support for our people stood testimony to our agility and dedication to safety and business continuity. A special programme - VST Cares was implemented, which included doctor's consultation, additional medical policy coverage and carrying out vaccination programmes for employees and their families. We contributed ₹ 100 Lakhs to Telangana State Disaster Management authority for supporting COVID-19 relief activities. Our organisation also supported the setting up of a medical oxygen generation and storage facility through a charitable trust for distribution and supply of oxygen.

₹ 100 Lakhs

Contribution to Telangana State Disaster Management authority for supporting COVID-19 relief initiatives.

Responsible Business

Our commitment to society is strengthened by the implementation of the sixth phase of Gramalaya-VST Industries programme. Under this, we undertook installation of 400 solar streetlights and building 775 smart toilets around Jogulamba-Gadwal district of Telangana.

In recognition to our sustainability efforts, we received a 'Commendation Certificate' for Safety Innovation from the Institute of Engineers, New Delhi, in addition to the IGBC 'Gold Rating' for our Toopran facility from CII, Hyderabad. As part of our commitment to EHS, we are certified by some of the best industry bodies, such as ISO 14001:2015, ISO 45001:2018. We have built a strong record on the environmental, social and governance (ESG) performance and will continue to strengthen it in the coming years.

People First

As an organisation, we continue to remain committed to employee welfare and career progression with development, engagement and recognition initiatives.

As we move into a new fiscal year in challenging conditions, I would like to thank my fellow Board members and the management team for leading the organisation through these

unprecedented times. I am grateful to our stakeholders, including our employees, business and supply chain partners, farmers and above all, to you, our valuable shareholders, for reposing your continued faith in our vision and being a constant part of this exciting journey of winning consistently.

Yours Truly,

Naresh Sethi
Non-Executive Chairman

Managing Director & CEO's message

Calibrating strengths for a better future



“Our competitive position today has also significantly improved, through a strengthened brand portfolio, larger geographical footprint, and stronger and deeper distribution across markets.”

Dear Shareholders,

As the world starts to adjust to a new normal with fewer COVID-19 cases along with mass vaccination present a positive outlook for the future.

Looking Back at our Best-ever Performance

We would not have been able to achieve this feat in an unprecedented year had it not been for the tireless efforts of our employees, wholesale dealers and their teams, our farmers and supply chain partners.

Our financial performance and growth trajectory remain impressive, with profits growing by 4% to an all-time high of ₹ 312 Crores. Over a 10-year period, our PAT has grown at a CAGR of 13% and our market capitalisation at a CAGR of 18%. FY 2020-21 witnessed improvement in our profitability by 4.2%, despite a tough year. This growth was driven by improving our product mix, aggressive pricing and cost optimisation measures.

Our market capitalisation witnessed a significant improvement by over 22%, from over ₹ 4,280 Crores in FY 2019-20 to ₹ 5,233 Crores in FY 2020-21.

Our competitive position today has also significantly improved, through a strengthened brand portfolio, larger geographical footprint and stronger and deeper distribution.

Over the last 5 years, we created and grew our brand, Total – with annual consumer spends of ₹ 2,000 Crores. Total is the largest capsule cigarette brand and is already among the top five cigarette brands in the country. This makes it the

most successful new brand in the cigarette industry in the last 3 decades. That this was achieved in a record 5-year period, is testimony to VST's single-minded focus and continuous innovation capability.

Strategies for Long-term Growth

Our focus on creating long-term value for our shareholders has led us to identify a few strategic focus areas, which have been arrived at after considering the market opportunities and our inherent strengths.

Innovation

We continue to invest in our R&D facilities and personnel training to develop unique blends with innovative capsule filters, which appeal to the sensibilities of modern adult smokers. Our R&D lab received 'Certificate of Continuation' of ISO 17025:2017 for FY 2020-21 from NABL Quality Council, Government of India.

Developing Strong Brands

Our brand portfolio comprises some of the most iconic cigarette brands, including Total and Charms in top 10. Our brand-building efforts, complemented with innovation, will make us more future ready even as we witness adult smokers becoming more open to trying novel options. We, at VST Industries, strongly believe in the management philosophy of 'launch fast, fail fast' to increase our probability of success.

Expanding Geographic Footprint

Another area of focus has been geographical expansion, which in this industry is a challenging objective to pursue. In the last 6

years, we made big strides and today we are present in 80% of India – the aim is to cover every geography in the next 3 years.

Our distribution network has grown by 23% and direct retail coverage by 41% over the last 6 years. Through our wholesale dealer network our products directly reach over a million outlets. As the company embarks on a new phase of digitisation, this will add more muscle to our already strong distribution.

Sustainable Business

At VST, we believe in multiplying the value we generate for our stakeholders and communities. We support our farmer partners in developing quality tobacco with the lowest pesticide residue levels and low TSNAs (Tobacco Specific Nitrosamines), which are within international standards. In addition, we invest to support community infrastructure development such as solar streetlights and smart toilets.

Our employees and our culture have always been the pride of VST.

FY 2020-21 is a special year for us, as it is our 90th Annual Report. We have been able to continue winning, even during these challenging times which reflects our inherent resilience, growth focus and winning attitude.

Over the last 5 years, we created and grew our brand, Total – at a consumer spend of ₹ 2,000 Crores, which is by far the largest capsule cigarette brand in the country and is estimated to already be among India's top 5.

I am glad to report that in FY 2020-21, we scored a record high on employee satisfaction. Our Team will remain the most important pillar in our continuing growth story.

I am confident that these strategies and a focused engagement approach will enable us to keep winning consistently in the future, stay true to our vision, and uphold our commitment to bringing growth and opportunities for our fraternity of stakeholders.

Thank you,

Aditya Gooptu,
Chief Executive Officer & MD

Who We Are

VST Industries Limited (VST) is among the oldest and most seasoned cigarette players in India, involved in manufacturing and marketing cigarettes as also trading unmanufactured tobacco. Incorporated in 1930 as Vazir Sultan Tobacco Company Ltd. at Hyderabad, we are an associate undertaking of British American Tobacco Plc., the global leader in cigarettes.

Our portfolio comprises some of the most iconic and innovative brands that have catered to adult smoker needs for close to a century.

VST IN NUMBERS

Fastest growing
cigarette company since FY 2014-15

~33%
record increase in adult consumer
base since FY 2014-15

2 brands
among the top 10 in the cigarette
industry

**Portfolio
upgradation**
2 new trademarks
successfully established

Our revenue streams
comprise cigarettes and
trading in unmanufactured
tobacco.

REVENUE MIX

14%
Unmanufactured
tobacco



86%
Cigarettes

Increased National Footprint

We have made continued investments in increasing geographic footprint across regions. We have been able to achieve operational coverage of more than 80% of the country, from 60% in FY 2014-15.

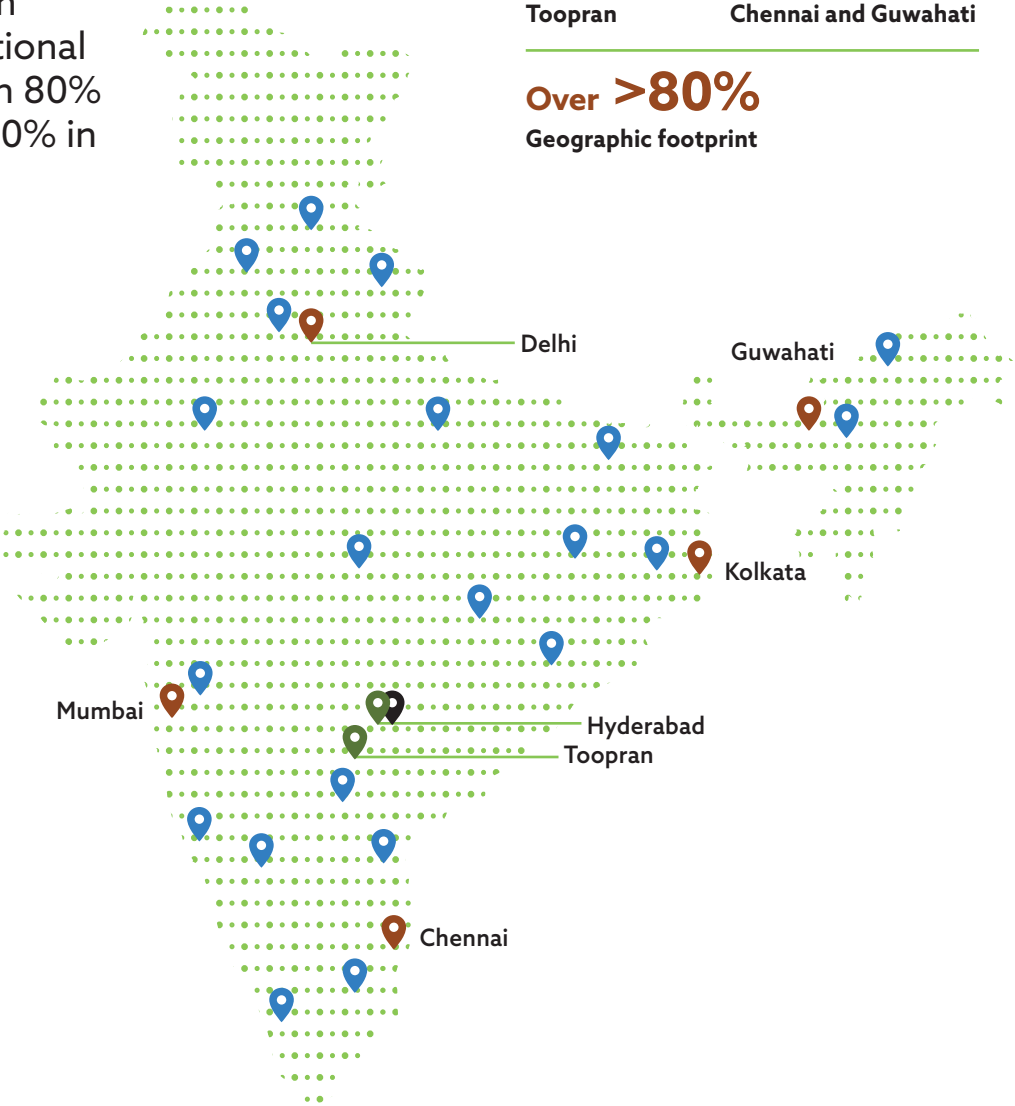
2 Manufacturing facilities in Hyderabad and Toopran

6 Regional offices in Hyderabad, Mumbai, Delhi, Kolkata, Chennai and Guwahati

Over >80%
Geographic footprint

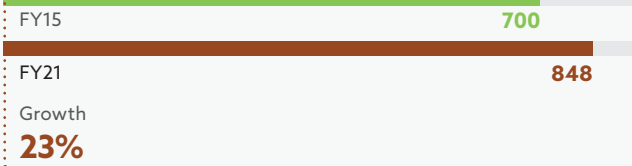
OFFICES AND MANUFACTURING FACILITIES

- Market presence (states)
- Regional offices
- Corporate office
- Manufacturing facilities

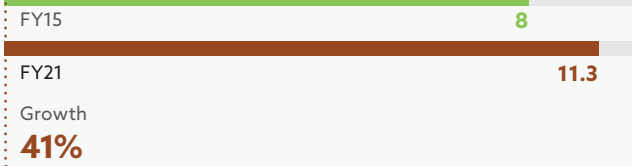


MARKET PRESENCE

Wholesale dealers
Number



Number of retail outlets (direct coverage)
Lakhs



Renewed Brand Portfolio

We are continuously working to bring innovative products that combine quality with affordability.

In the last 6 years, we have successfully upgraded the brand portfolio with multiple first-to-market innovations. Our robust brand portfolio now caters to

needs of diverse adult smoker groups across socio-economic strata. **Our portfolio can be broadly divided into New Age Brands (NABs) and Growth Heritage Brands (GHBs).**

NEW-AGE BRANDS

Launched in 2015 with innovation as the central theme, they have altered industry landscape and are successfully catering to changing adult smoker preferences.

Total
Fastest growing brand in the last 5 years

2nd brand in the market with a near pan-Indian presence



Editions
VST's 1st successful king-size brand

Strong presence in South India



GROWTH HERITAGE BRANDS

Our legacy brands have strong regional presence catering to adult smokers in heartland India.

Charms
A generational brand

Multi-regional presence



Special
Catering to local sensibilities

Strong presence in the East



Moments
Relatively newer addition to portfolio

Strong presence in North India



BRAND SUCCESS STORIES

Total
In a span of 5 years, Total has achieved the rare distinction of becoming the most successful brand in the industry in the last 35 years. Annual consumer spends on Total are in excess of ₹ 2000 Crores a testimony to brand's growing stature.



#1
Capsule brand

5th
Largest brand in India (in terms of volumes)

Charms
Charms is an iconic, multi-generational brand with 'quality satisfaction' at its core. Charms successfully caters to local tastes and preference with strong presence in all leading states of East, South and North-East. Annual consumer spends have registered a strong growth and are currently ₹ 1150 Crores a 20% increase vis-à-vis 2015.



40 years Of legacy
8th largest Largest Indian brand (in terms of volumes)

Our People

We believe that our people are the biggest enablers of consistency in business performance and success. It is with the commitments and capabilities of our people that we are able to attain our long-term objectives.

FY 2020-21 EMPLOYEE STRENGTH

780
Employees

421
Factory employees

359
Management Staff

A CULTURE THAT FOSTERS PERFORMANCE

We provide an open and dynamic work culture, which empowers our people to perform to the best of their abilities, and simultaneously supporting them. VSTians take pride in being part of a constructive workplace that encourages flexibility at work along with freedom and autonomy to take independent decisions.

- Work-life balance is given emphasis at VST
- Stable and fulfilling careers, providing multiple growth avenues and opportunities



LEARNING IS A CONTINUOUS PROCESS

We believe that learning and development is an important part to foster an employee's career growth. Our people are thus encouraged to continuously upgrade their skills and develop a competency-based approach.

13
Learning and training sessions conducted

52 hours
Average training hours per employee, annually

Recent programmes



Winning mindset



Growth orientation



Enhancing managerial competencies



Stepping into leadership

THREE-PRONGED APPROACH TO ENHANCE LEARNING AND DEVELOPMENT



On-the-job training

Making people ready for the role they are hired for through practical experiences



Experiential workshops

Enhancing managerial skills and competencies



Stretch assignments

Mode of learning programmes are conducted internally, including nominations to management programmes as well as those that are ad-hoc

HIGHER EMPLOYEE SATISFACTION

We regularly conduct employee engagement/satisfaction surveys. Over the years, there has been significant improvement in employee engagement scores from 65 to 85 in 2020, which is at par among the best employers in the industry.

On industrial relations, we have a harmonious working environment with the Union at the factory. The Management - Union relationship is cordial, with mutual trust and respect. We recognise the needs of the workforce and address their concerns proactively through long-term solutions post interactions and discussions with the Union.

DIVERSITY AND INCLUSION

VST is an equal opportunity employer and our endeavour is to further scale up the diversity agenda making VST much more diverse and inclusive.

Opportunity Landscape

We at VST are well poised to seize opportunities in an evolving industry landscape. The ongoing COVID-19 pandemic, and its associated uncertainties, have led the markets recalibrate to the new normal. However, we are confident that the long-term prospects of the industry remain intact. These emerging opportunities duly integrate with our strategic goals.



INHERENT INDUSTRY STRENGTH

Tobacco has been an important commercial crop for India since the pre-Independence period. India has a distinctive place in the global tobacco industry and the Indian tobacco is renowned for its rich, full-bodied flavour and smoothness. India is also the second largest producer and third largest exporter of tobacco in the world. These factors favour long-term prospects of the tobacco industry.

MARKET DRIVERS

Annual consumer spends have registered a consistent growth despite steep taxation led price hikes. Adult smoker preferences are evolving as they increasingly seek innovation led products and move beyond established trademarks. VST's strategic focus and track record of successful first-to-market innovations are a great platform to strengthen our market standing in the Indian cigarette industry.

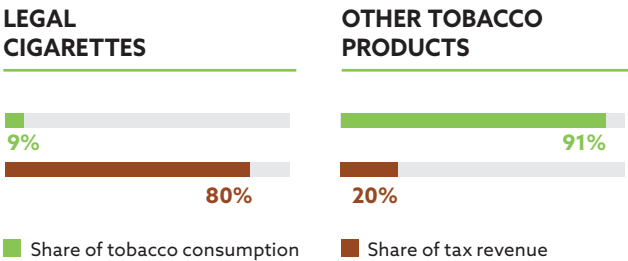
On the leaf tobacco side, Indian tobacco producers are using technologically advanced threshing plants and re-drying factories with the assistance of the Tobacco Board. These facilities are used for increasing the yield of Flue-Cured Virginia (FCV) tobacco and other varieties, which can then be exported across the world. Improved infrastructure, thus, drives growth for this market.

OUR RESPONSE

Medium-term Challenges

The COVID-19 pandemic has led to high uncertainties. However, recovery rates are expected to improve with mass vaccination drives in place.

- Regulations and taxation will continue to pose challenges
- Legal cigarettes constitute only 9% of tobacco consumed in India, while traditional products and illegal cigarettes comprise the remaining 91%. 80% of the tax burden of tobacco sector is borne by legal cigarette industry. Such discrepancy in taxation and stringent regulations has led to the continuous growth in illicit cigarettes and consequent loss of tax revenues to the government



VST has continuously faced regulatory, taxation, and illicit trade challenges. VST's inbuilt agility, strong fundamentals, track record, and a strategic outlook will enable the Company to seize opportunities and further strengthen its market position.

Please refer to **page 20** for highlights on our response to market opportunities.



Our Value Creation Model

