



VST INDUSTRIES LIMITED



**RIISING ABOVE
CHALLENGES**
RESILIENT
INNOVATIVE
RESPONSIBLE



Contents

CORPORATE OVERVIEW

- 2 About VST Industries
- 4 Board of Directors
- 5 Management Team
- 8 Chairman’s Statement
- 10 MD and CEO’s Message

PERFORMANCE OVERVIEW

- 12 Building a Vibrant Brand Portfolio
- 14 Key Performance Indicators

HOW WE CREATE VALUE

- 16 Value Creation Model
- 18 Building a Stronger Future Together

ESG APPROACH

- 20 Actions on ESG
- 22 Our Commitment towards a Cleaner Future
- 24 Culture of Collaboration, Empowerment, Ownership
- 28 Empowering Communities for Inclusive Growth
- 32 Ensuring ESG compliant Governance

STATUTORY REPORTS

- 33 Corporate Information
- 34 Notice
- 42 Report of the Board of Directors & Management Discussion and Analysis
- 55 Report on Corporate Governance
- 86 Business Responsibility & Sustainability Reporting (BRSR)

117 FINANCIAL STATEMENTS

FY 2022-23 Highlights

FINANCIAL HIGHLIGHTS

₹ **1,67,251** Lakhs

Revenue

₹ **32,698** Lakhs

Net profit

₹ **211.8**

Earnings per share

21.1%

EBIT margin

₹ **1,17,970** Lakhs

Net Assets employed

₹ **150**

Dividend per share

36.9%

RoCE

NON-FINANCIAL HIGHLIGHTS

₹ **821*** Lakhs

CSR expenditure

100

Solar streetlights

3

Classrooms

850

Smart toilets

30%

Of energy requirements generated from renewable energy

*Includes ₹ 249.55 Lakhs pertains to ongoing project, transferred to unspent CSR accounts.

RISING ABOVE CHALLENGES RESILIENT INNOVATIVE RESPONSIBLE



At VST, we believe that winning is more than just achieving a goal. The FY 2022-23 was characterised by challenges in terms of inflationary pressure on raw materials and supply chain operations and some headwinds on volume and market share growth. Nevertheless, VST delivered good financial performance with an all-time high Net comprehensive income of ₹ 328 Crores.

With the goal of delivering long term value to our stakeholders we rolled out strategic initiatives aimed at delivering growth in terms of volume and market share. The strategies are centered around delivering consistent growth, building innovative brands, integrating new capabilities, process agility, executional excellence and environmental sustainability.

Moving ahead with the support of our team and our growth plan, we are set to emerge stronger than before. As we move into the future, we will continue to innovate, be responsible and stay focused on achieving our goals, while creating a positive impact on society and the environment.



About VST Industries

VST Industries Limited is a trusted and responsible Indian cigarette manufacturer, with a rich legacy that spans over nine decades. As an associate undertaking of British American Tobacco Plc., we have an expansive and innovative portfolio of high-quality products that allows us to cater to a wide market and prioritise customer satisfaction.

What Makes us Stand Out?



VIBRANT BRAND PORTFOLIO

Our brand portfolio is a reflection of our commitment to meeting the evolving needs of our adult consumers. Our distinctive brand portfolio has led us to achieve remarkable financial and business growth in the past seven years.



INNOVATION CAPABILITY

We have established a dedicated product innovation hub to develop and bring to life unique and innovative products that meet the evolving preferences of adult consumers. Our commitment to innovation is a driving force behind our vibrant brand portfolio.



NATIONAL PRESENCE

We have greatly increased our distribution network to effectively serve adult consumers across India and enjoy a strong national presence. Our wholesale and retail network spans the length and breadth of the country, thus enabling us to reach adult consumers in every state.

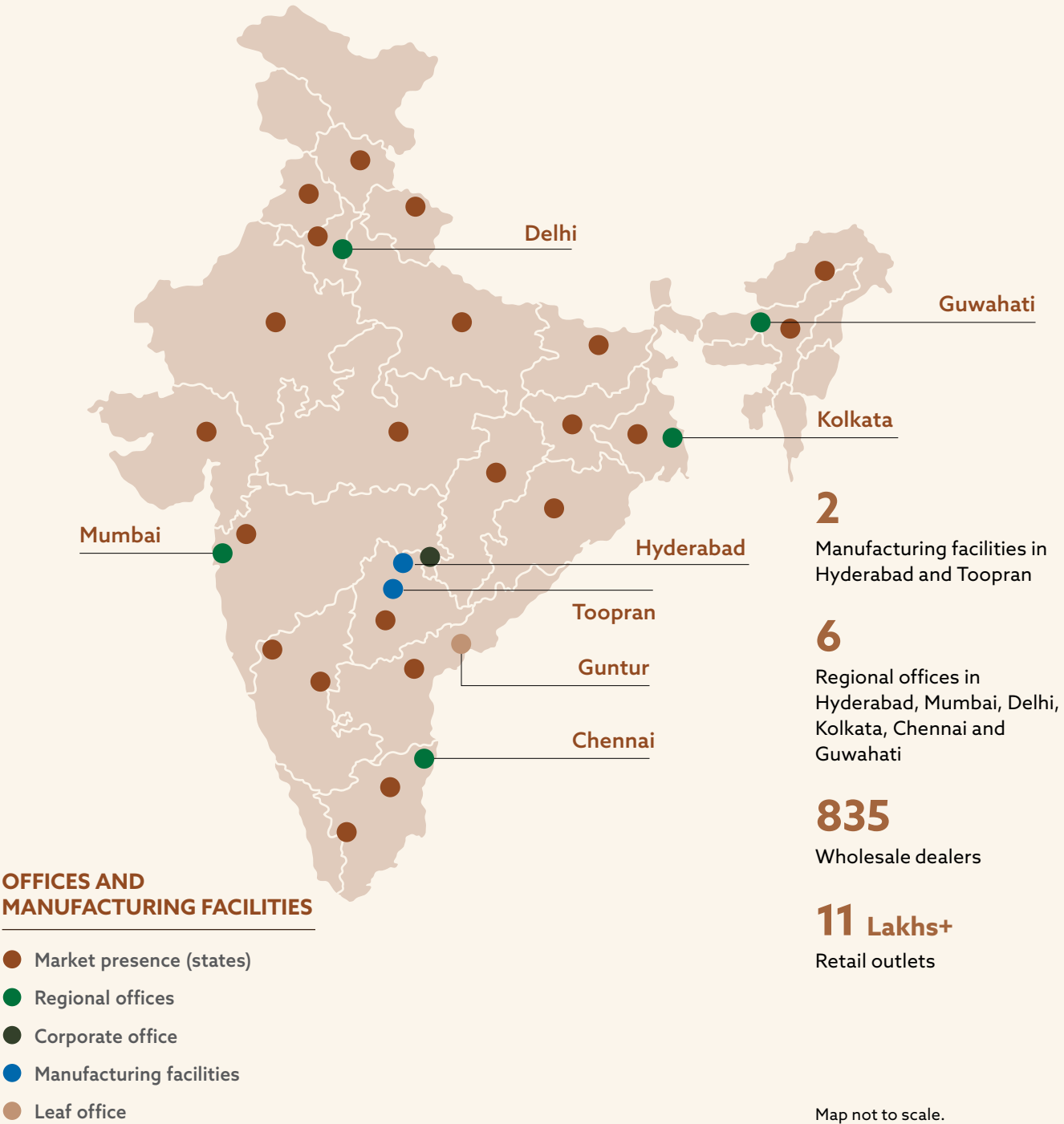


PASSIONATE TEAM

The long-term success and growth of our organisation is a collective result of the passion, skill, and ambition of our people. Guided by an effective leadership team and good governance, our people harbour the clear vision to deliver a superior performance.

Extensive Reach across India

Supported by a strong network of wholesale dealers and an extensive retail presence, we are able to effectively serve our customers and expand our market reach.





Board of Directors



Left to Right

- 1

MR. S. THIRUMALAI
Non-Executive Director
- 2

MR. ADITYA DEB GOOPTU
Managing Director & CEO
- 3

MS. RAMA BIJAPURKAR
Independent Non-Executive Director
- 4

MR. NARESH KUMAR SETHI
Non-Executive Director & Chairman of the Board
- 5

MR. SUDIP BANDYOPADHYAY
Independent Non-Executive Director
- 6

MR. RAJIV GULATI
Independent Non-Executive Director

Management Team



MR. ADITYA DEB GOOPTU
Managing Director & CEO



MR. KALYAN BASU
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



MR. AMIT ARORA
Chief Human Resource Officer



MR. TARUN MALHOTRA
Vice President-Marketing



MR. PHANI MANGIPUDI
Company Secretary and Vice President-Legal & Secretarial



Board of Directors - Profiles

1

MR. S. THIRUMALAI

Non-Executive Director

Mr. Thirumalai is a Non-Executive Director on the Board of VST Industries Limited since 2019. Prior to this, he was the Independent Non-Executive Director of the Company.

Mr. Thirumalai is a Member of the Audit, Stakeholders Relationship Committee and Corporate Social

Responsibility Committees of the Company.

Mr. Thirumalai is a Fellow Member of Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Certified Associate of Indian Institute of Bankers and a law graduate. He has also attended

the Advanced Management Programme at Harvard Business School, Boston, USA. He has diversified experience of over four decades and specialises in Finance, Taxation and Legal affairs, especially in the tobacco sector.

2

MR. ADITYA DEB GOOPTU

Managing Director & CEO

Mr. Gooptu is the Managing Director & CEO of VST Industries Limited. He is a Member of the Stakeholders Relationship Committee and Corporate Social Responsibility Committee of the Company.

Mr. Gooptu holds a Bachelor's degree in Engineering from Jadavpur University and a Post Graduate Diploma in Management from IIM, Ahmedabad. He has also attended the Advanced Management Programme at the Harvard Business School.

Mr. Gooptu has spent over 17 years in Godfrey Phillips India in various roles and most recently as Executive Vice President & Business Head - Cigarettes before joining the Company.

3

MS. RAMA BIJAPURKAR

Independent Non-Executive Director

Ms. Bijapurkar joined the Board of Directors of VST Industries Limited as an Independent Non-Executive Director in 2019. Ms. Bijapurkar is the Chairperson of Nomination and Remuneration Committee and Stakeholders Relationship Committee and Member of the Audit and Corporate Social Responsibility Committees of the Company.

Ms. Bijapurkar holds a B.Sc. (Hons) degree in Physics from Delhi

University and a Post Graduate Diploma in Management from IIM Ahmedabad. Ms. Bijapurkar is a recognised thought leader on market strategy and India's consumer economy and has over 30 years of experience in market strategy consulting and market research. She has her own independent market strategy consulting practice, is a widely experienced independent director

and is also a visiting faculty at IIM Ahmedabad.

Ms. Bijapurkar is a Director on the Boards of Gokaldas Exports Limited, Apollo Hospitals Enterprise Limited, Cummins India Limited, Mahindra & Mahindra Financial Services Limited and Sun Pharmaceutical Industries Limited, Sun Pharma Distributors Limited.

4

MR. NARESH KUMAR SETHI

Non-Executive Director & Chairman of the Board

Mr. Sethi joined the Board of Directors of VST Industries Limited as a Non-Executive Director to represent the interests of the Promoter Group - British American Tobacco (BAT) in 2018. Mr. Sethi is a Member of the Nomination and Remuneration Committee, Stakeholders Relationship

Committee and Corporate Social Responsibility Committee and an invitee to the Audit Committee of the Company.

Mr. Sethi holds a Degree in Chemical Engineering from IIT, Varanasi and completed his Post Graduate Diploma in

Management from IIM, Calcutta. He is a Global Consumer Products General Manager and Strategy/Transformation Leader with a strong track record of leading large, complex businesses, consistently delivering exceptional results and sustainable shareholder value.

5

MR. SUDIP BANDYOPADHYAY

Independent Non-Executive Director

Mr. Bandyopadhyay joined the Board of Directors of VST Industries Limited as an Independent Non-Executive Director in 2019. Mr. Sudip is the Chairman of the Audit and Risk Management Committees and a Member of the Nomination and Remuneration Committee of the Company.

Mr. Bandyopadhyay is a rank holder Chartered Accountant and a Cost Accountant with

over 31 years of rich and diverse experience in various areas of finance and financial services. He is also a Gold Medalist from Calcutta University.

Mr. Bandyopadhyay is currently the Group Chairman of Inditrade (JRG) Group of Companies. Inditrade has significant presence in Agri Commodity Financing, Micro Finance business and MSME lending. He sits on the

Boards of a number of listed and unlisted domestic companies. He is also an investor in many Fintech and other Technology related ventures. He has significant presence in business media through his regular interaction on leading business channels, business newspapers and magazines.

6

MR. RAJIV GULATI

Independent Non-Executive Director

Mr. Gulati joined the Board of Directors of VST Industries Limited as an Independent Non-Executive Director in 2019. Mr. Gulati is the Chairman of the Corporate Social Responsibility Committee and Strategy Committee and Member of the Audit, Nomination and Remuneration Committee and Stakeholders Relationship Committees of the Company.

Mr. Gulati has completed his Masters in Pharmaceutical Technology from IIT, Varanasi and Post Graduate Diploma in Management from IIM, Ahmedabad. He is a well-known veteran with three decades of rich Pharma industry experience.

Mr. Gulati is an Independent Consultant advising several PE firms in making

judicious investments in the pharmaceutical sector and has been the Pharma Chair of American Chamber of Commerce and Indo American Chamber of Commerce in the Past. Currently he serves as Trustee of Delhi Pharmaceutical Trust.



Chairman's Statement



During these times of change, your Company remained committed to long term strategy, which is focused on growth through Brand building, product innovation and digital & retail activation. We believe this will result in sustainable growth and the Company will remain resilient through the coming years.

Dear Shareholders

I am pleased to share your Company's performance and progress during the FY 2022-23. It was a year of both opportunities and challenges. We successfully navigated the industry landscape shaped by changing market dynamics and inflationary pressures.

Business Performance

Despite a challenging operating environment, your Company witnessed growth in revenues and profitability. Revenues grew by 7.1% to reach ₹ 1,670 Crores in FY 2022-23, against ₹ 1,559 Crores in FY 2021-22. Total comprehensive income stood at an all-time high of ₹ 328 Crores.

Operating Environment

During the year, the industry continued to face unprecedented inflationary headwinds that increased costs of key raw materials ranging from tobacco leaf to paper packaging. This resulted in significant cost pressures on the finished goods. Despite inflationary pressures, end consumer prices remained largely unchanged resulting in strong volume rebound. The growth was highest in mid-premium segment driven by up-trading, from value segments.

Moreover, the recent Budget for FY 2023-24 introduced a 16% increase in the National Calamity Contingent Duty (NCCD) on cigarettes resulting in a net increase of 1.6% on overall tax.

Focused on Long Term Growth

During these times of change, your Company remained committed to long term strategy, which is focused

on growth through Brand building, product innovation and digital & retail activation. We believe this will result in sustainable growth and the Company will remain resilient through the coming years.

There was a significant focus on cost management by your Company to partially offset inflationary pressures on the supply chain and to make resources available for growth.

In addition, we have carefully evaluated our pricing strategies and explored alternate approaches to drive sales growth and have implemented new ways of engaging with multiple trade partners and adult consumers. We initiated a digital transformation journey in the year 2021 to upgrade our trade marketing capabilities, which is now well-established and delivering business benefits.

Responsible Business

As your Company stays focused on business growth, minimising our environmental footprint remains a key strategic goal. Sustainability has long been an intrinsic part of your Company's DNA and I take pride to inform you that we published our first ESG Report in 2022. Your Company aims to reduce emissions and the impact on the environment through renewable energy investments, energy conservation measures, and fossil fuel substitution. Your Company has installed solar power plants, implemented energy-efficient technologies, and transitioned from diesel to piped natural gas. Moving forward, your Company will continue to explore waste management, water conservation, and renewable energy sources to accelerate sustainability efforts.

Our commitment to responsible practices aligns with our vision for a greener future.

Your Company continues to prioritise social well-being through various CSR initiatives. We are proud to state that we have been able to impact the lives of over 26,000 families in Telangana and Andhra Pradesh by establishing a strong foot print. Focus areas include health and sanitation, education, environment sustainability, and farmer livelihood. Your Company has constructed household toilets, provided infrastructure support to schools, and conducted vocational skill training programmes and installed solar streetlights. Your Company continues to support farmers on sustainable farming practices. These initiatives are in line with our long-standing commitment to create a positive impact on the community and promoting a sustainable future.

Dividend

I am delighted to announce that the Board of Directors has approved the declaration of the Company's highest-ever dividend of ₹ 150 per share, representing an increase of 7% over the previous fiscal year. This reflects our commitment to enhancing shareholder value and recognising your unwavering support.

Pursuing Excellence

We continue to build on the rich pool of our talent, heritage and culture. Your Company prioritises the growth and development of employees by providing continuous upskilling, engagement, and career opportunities. We continuously strive to attract top talent, fostering a diverse and inclusive environment where every individual

is empowered to contribute and thrive. Every individual across the Company has contributed towards its achievements by displaying resilience, dedication, and a willingness to adapt to change.

Looking Ahead

Your Company remains committed to navigate the dynamic business landscape and drive sustainable growth. There will be continued focus on further strengthening our brands, exploring innovative product offerings, and leveraging digital platforms for execution excellence.

I extend my deepest gratitude to our Board of Directors and the entire management team for their diligent efforts on delivering a good performance and leading our dedicated employees. Their continued support will undoubtedly play a pivotal role in driving higher growth. I would also like to extend my heartfelt thanks to all our valued stakeholders – our shareholders, customers, employees, and partners – for their unwavering support and trust. Your Company remains dedicated to delivering long-term value and upholding the highest standards of corporate governance and transparency. Together, we will embrace the challenges and emerge stronger to drive sustainable growth.

Thank you,

NARESH SETHI

Non-executive Chairman



MD and CEO's Message



Dear Shareholders,

I am pleased to present an overview of our performance, strategic focus areas, and our vision for the future. The fiscal of 22-23 was characterised by significant cost pressures on raw materials as well as supply chain operations. We witnessed challenges in terms of volume and market share. However, your Company demonstrated resilience and delivered good financial performance with a 7.1% growth in revenue. Our net comprehensive income stood at an all-time high of ~ ₹ 328 Crores.

As we look ahead, we remain resolute in our approach to grow volumes, expand our market share while delivering long-term value to our stakeholders. We are undertaking several strategic measures and initiatives to remain focused as outlined below.

Strategic Priorities

In a dynamic industry landscape, we have identified key strategic focus areas that will help us gain market share and drive long-term growth. These focus areas are aligned with our commitment to delivering value to our stakeholders and continuously strengthening our position in the market with environmental sustainability as a cornerstone.

Execution Excellence

As part of this initiative, we are evaluating key growth pathways, enhancing our front-end capabilities, and implementing strategies such as strong focus on micro-markets, trade scheme optimisation, visibility enhancement, trade activation and rural penetration through B2B models, which we believe present valuable opportunities for accelerating growth.

Brand Portfolio

With evolving consumer needs, it is essential that equity & relevance of our brands remains strong. Your Company has significantly increased investments to contemporise brand portfolio. The new brand architecture for our key trademarks was introduced during the fiscal. Furthermore, your Company continues to launch innovative offerings at multiple strategic price points appealing to diverse consumer needs. Your Company has a proven track record of new

brand successes. One of the variants launched last in FY 2022-23 is currently 2% of our overall portfolio. These new brand launches are backed by research led superior consumer insights and sustained product development. Width & depth of our brand portfolio are cornerstone of our efforts to grow volumes & market share.

Increasing Sales Force Effectiveness

Our sales force plays a pivotal role in driving growth and strengthening customer relationships. We are committed to improving sales force effectiveness through role realignment, optimised distribution coverage, comprehensive sales training programmes, and leveraging digital tools to improve decision-making and performance tracking. Excellent rural penetration is our strength & steps are being undertaken to further excel & derive higher growth from rural India. Moreover, to support our growth journey, we have made a strategic decision to collaborate with partners who will provide valuable support and guidance.

Cost Optimisation: To achieve cost efficiencies, we have been implementing various measures such as optimising supply chain operations with focus on supply chain logistics and warehousing.

Leveraging Digitisation: Through various digitisation measures, we are streamlining our sales processes, optimising productivity, and taking data-driven decisions. Our digitisation efforts have yielded positive results in improving productivity and sales across markets.



Our commitment to sustainability is evident in our responsible business practices and environmental stewardship that yielded tangible outcomes.

People & Culture: Our Top Priority

We believe in the importance of our talented workforce and are well invested in making VST future ready. We are successfully transforming by driving Collaboration, Engagement & Ownership (each individual as a CEO) as key cultural values and are seeing the results of our renewed efforts. We have prioritised training and capability building for providing avenues of career growth. There is a special emphasis on grooming the next generation of leadership talent as your Company nears its centennial year in 2030.

Sustainability at the Core

We have also made good progress on our ESG commitments this year. Our commitment to sustainability is evident in our responsible business practices and environmental stewardship that yielded tangible outcomes. We have made good progress in reducing our environmental footprint by generating 30% (scale up from 25% last year) of our total electricity consumption from renewable energy sources. In addition, we are also pursuing initiatives to reduce our environmental impact, one such instance being the conversion of our PMD boiler fuel from diesel to clean fuel, such as PNG (Piped Natural

Gas). Water conservation has also remained a key focus area for us. We have been reducing our water consumption y-o-y while creating rainwater harvesting structures with an aim to attain net water positivity by FY 2025-26. Furthermore, we continue to actively contribute to the well-being and development of the communities surrounding our operations through various CSR initiatives in the areas of health and education.

Way Forward

Looking ahead, we recognise the need to adapt to evolving market dynamics to drive business growth and profitability while ensuring the best possible outcomes for our stakeholders. We will continue to focus on execution excellence of our strategies to drive sustainable growth, enhance market share, and strengthen our brand positioning. Given the external business environment becoming challenging than ever, we are confident that VST's proven resilience will support our endeavour to capitalise on the opportunities for equitable growth.

Finally, I extend my sincere gratitude to the Board for their invaluable guidance, expertise, and support and would also like to express my sincere gratitude for the remarkable dedication and resilience exhibited by each team member of our organisation. Leveraging our strong position and comprehensive strategies, I am confident that we will not only overcome the challenges at hand but also forge ahead and create long-term value for our stakeholders.

Thank you,

ADITYA GOOPTU,
Managing Director & CEO

Building a Vibrant Brand Portfolio

With our diverse range of brands, we are well-positioned to cater to the diverse needs of our consumers across segments. At VST Industries, we move forward, while pushing boundaries to redefine the Indian tobacco industry.

Our portfolio reflects our commitment to innovation, quality, and consumer satisfaction. We have a portfolio that comprises five vibrant brands, two of which are New-Age Brands and the other three are Growth Heritage Brands.

NEW-AGE BRANDS



TOTAL

Our fastest-growing brand in the last five years, Total is a testament in our ability to innovate and meet the high standards of quality our adult consumers seek.

EDITIONS

The perfect blend where tradition meets modernity, Editions is Your Company's first successful king-size brand that has established a strong presence in South Indian markets.



GROWTH HERITAGE BRANDS



CHARMS

A generational brand with a multi-region presence, Charms has been a trusted name in the Indian cigarette industry for decades. The brand's loyal customer base is a testament to its quality.



SPECIAL

With a strong presence in the East, Special is a representation of the rich cultural diversity of the region. Its unique flavour has made it a favourite among consumers in the East.



MOMENTS

A popular choice among consumers in North India, Moments brings forward a distinct blend of tobacco and flavours that captures the essence of the region's rich cultural heritage.

BRAND LAUNCHES IN RECENT YEARS



Total Active Mint was launched in 2022 across North Indian markets. A mint capsule in a VSFT format for the price conscious smoker.



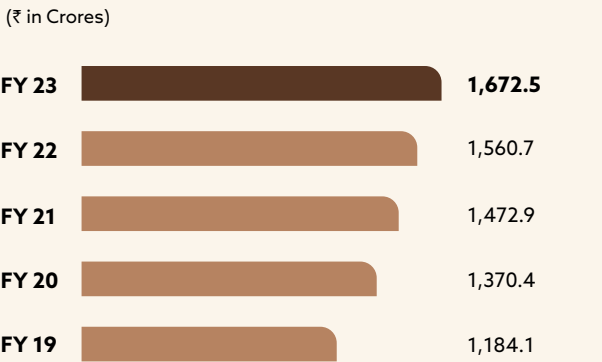
Total Royal Twist was launched in 2021 with a contemporary take on Indian flavours, the elegance of Kesar combined with a refreshing saunf capsule to deliver a unique smoke experience. The Brand continues to appeal among young adults across markets.



Key Performance Indicators

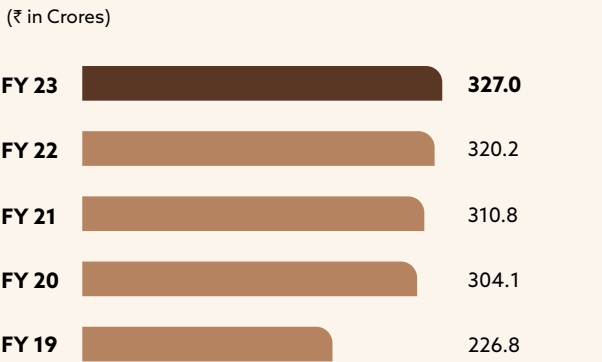
Financial

Revenue from Operations



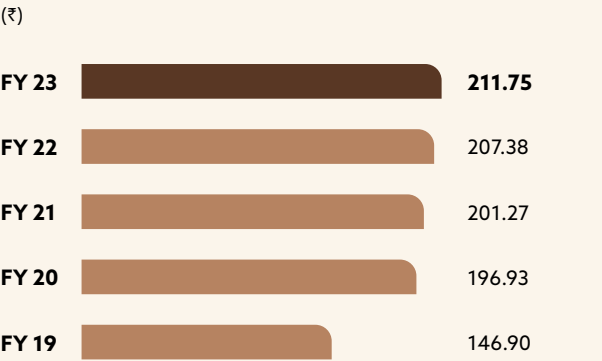
⌄ 7.2% ⌄ 9.0%

PAT



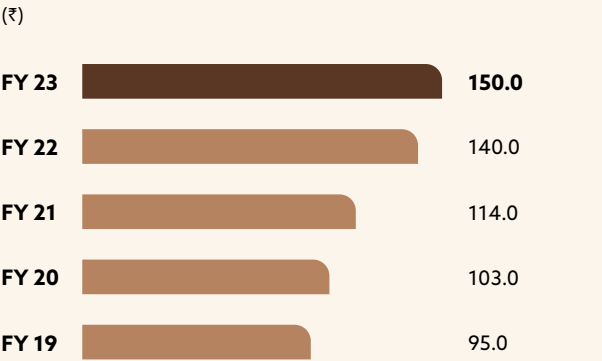
⌄ 2.1% ⌄ 9.6%

Earnings Per Share



⌄ 2.1% ⌄ 9.6%

Dividend Per Share

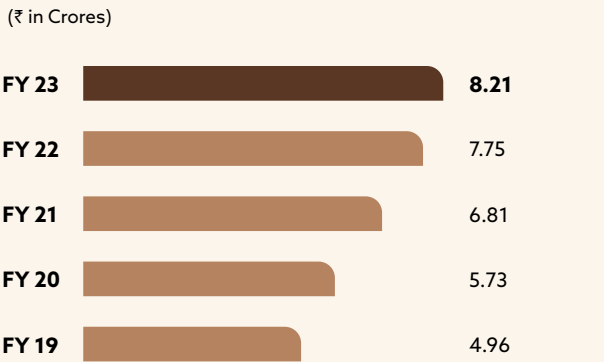


⌄ 7.1% ⌄ 12.1%

⌄ Y-o-Y ⌄ 5 year CAGR

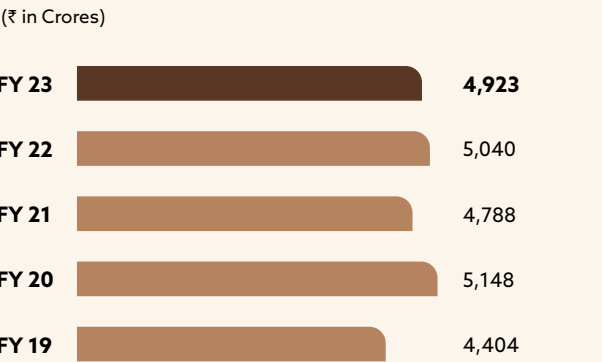
Non-financial

CSR Expenditure



⌄ 5.9% ⌄ 13.4%

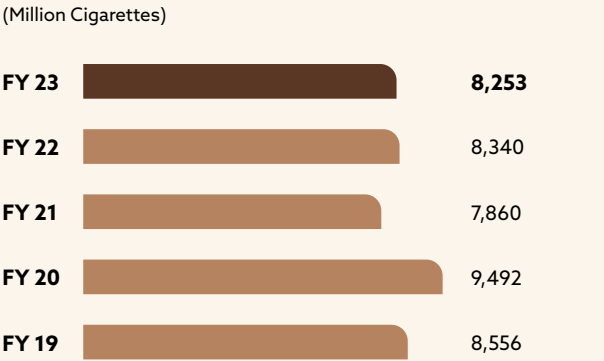
Consumer Spend



⌄ 2.3% ⌄ 7.11%

Operational

Volumes



⌄ 1.0% ⌄ 0.9%





Value Creation Model

OUR RESOURCES

VALUE CREATION PROCESS

THE VALUE WE CREATE

Financial Resources

Our good financial track record enables us to continue investing in our strategic growth drivers to generate a steady and long-term revenue growth and, as a result, support a progressive dividend policy.

- Equity Capital: ₹ 1,544.19 Lakhs

Manufacturing and other assets

- 2 factories and 6 regional offices
- Raw materials: 4,955 tonnes of tobacco

Human Resources

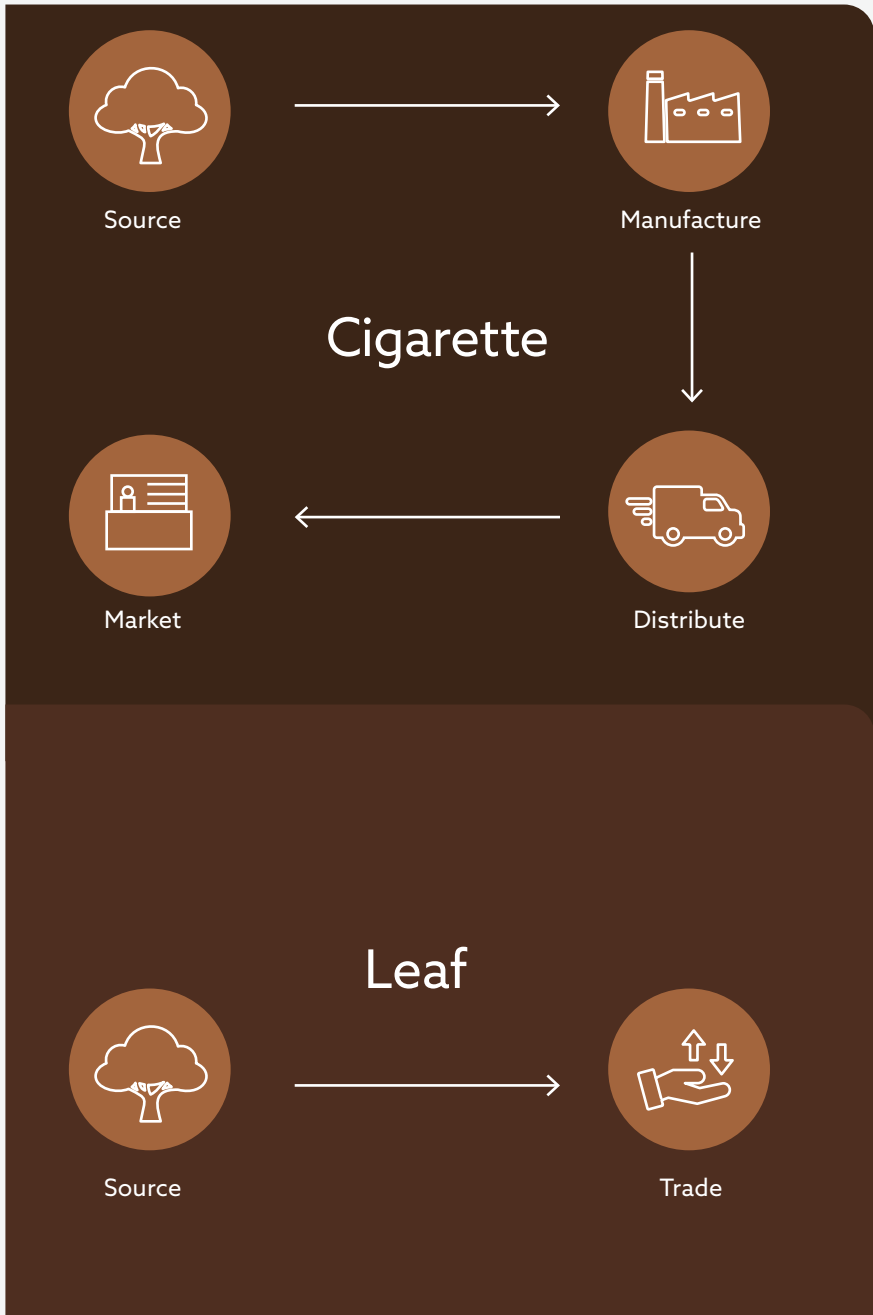
Engaged employees aligned with the business aspirations to create value for the success of the organisation

Intangible Assets

Our trademarks and creative assets that drive and reinforce the identity of youthful and modern brands delivering best-in-class satisfaction to achieve faster growth.

Industry Landscape

Business Processes



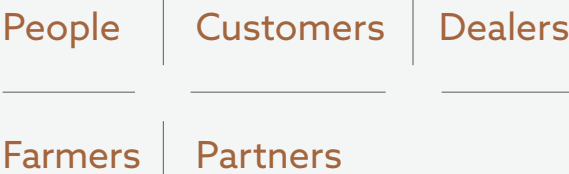
Strategic Priorities

- Gaining volume growth and market share
- Enhancing brand equity
- Driving productivity and cost efficiency
- Improving sales processes and sales effectiveness
- Fostering a high-performance culture

Enablers



Stakeholder Relationships



₹ 1,29,244 Lakhs

Net Revenue

₹ 32,751 Lakhs

Total Comprehensive Income

₹ 211.75

Earnings Per Share

₹ 150.00

Dividend Per Share

36.9%

Return on Capital Employed

21.1%

EBIT

Total Active Mint and Royal Twist

New Products launched

73

New Employees Hired

2

of the Top 10 cigarette brands are owned by VST