

### Weaker cigarette volumes in recent months

We recently met the management of Godfrey Phillips (GP). Management opined, given lower rural demand cigarette consumption in recent months saw some pressure driving way for rising competitive intensity (trade discounting). GP's focus on RSFT segment coupled with solid growth in Marlboro franchise helped the company to maintain momentum. Further seizures from regulatory authorities, curtail the impact of illicit and counterfeits. Management said, its core states contributing to ~70% of sales such as J & K/Mah/Guj/Raj/PJB saw reasonable growth. To improve its RSFT offerings GP recently launched few new cigarettes with double capsule. Management expects good recovery in cigarette volumes in 2HFY24. Given lower prices for non-FCV (Burley) tobacco in India, GP expects strong exports of unmanufactured tobacco in 2HFY24 (+20%). With clear focus on cutting losses, TFS business (146 stores) witnessing steady footfalls. With rising sales for Marlboro, IPM (JV) saw strong profitability after wiping out losses by declaring dividend income to GP, which may continue in our view. We retain BUY, with DCF-based TP Rs2,383 (implying 13.6x FY25E EPS).

#### Weak rural demand put pressure on Cigarette volumes, yet competitive intensity rising

Management opined, given lower rural demand, cigarette consumption in recent months saw some pressure driving way for rising competitive intensity (trade discounting). GP's focus on RSFT segment, coupled with solid growth in Marlboro franchise helped it to maintain momentum. Further seizures from regulatory authorities curtail the impact of illicit and counterfeits on the legal industry. Management said, its core states contributing to ~70% of sales such as J & K/ Mah/Guj/Raj/PJB saw reasonable growth. To improve its RSFT offerings GP recently launched few new cigarettes with double capsule including Stellar slims, Four Square Crush Nebula, etc. Marlboro franchise now make up 30% contribution led by 'Marlboro-Compact' priced at Rs10, yet its entry in DSFT segment had limited success.

#### Higher share of unmanufactured tobacco sales may hold gross margin if not lower

Rising share of cut and unmanufactured tobacco exports coupled with high growth in Marlboro may hold GP's gross margin ~46-48% range. Despite weaker consumption dynamics and recent auction for leaf tobacco crop in AP/Karnataka saw ~25% increase in FCV tobacco prices management ruled out any price increase. However, rising share of profits for IPM (JV) could lift dividend income for GP in our view. Further clear strategy to cut losses in TFS retail business could influence profitability for GP in our view.

#### Management expects sustained growth momentum, as long-term growth drivers are intact

We reckon GP's growth strategy is driven by (1) focusing on new markets to capture shift in demand towards value-for-money cigarettes, (2) reinforcing partnership with Phillip Morris, acting as key growth engine, (3) strengthening export markets, and (4) capitalizing on fast-growing TFS business.

#### Valuation and risks

In line with our argument, cigarette industry witnessed strong volume growth in FY23 led by higher sales in RSFT segment, yet after strong Q1 the recent trend appears to be weak. We believe strong tailwinds for RSFT segment and rising penetration of Marlboro may drive revenues for GP. TFS focus on driving profitability could influence operating margins for GP. We remain hopeful on rural recovery, which could provide strong tailwinds for GP. Considering rising dividend income from associate (IPM) we retain Buy with DCF-based TP Rs2,383 (implying 13.6x FY25E EPS). Risk: sharp increase in taxation and higher competition.

### Financial and valuation summary

YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenues	24,686	26,453	35,302	41,058	44,299
EBITDA	4,954	5,981	7,714	9,237	10,410
EBITDA margin (%)	20.1	22.6	21.9	22.5	23.5
Adj. Net profit	3,569	4,320	6,084	7,872	9,103
Adj. EPS (Rs)	68.6	83.1	117.0	151.4	175.1
EPS growth (%)	(8.0)	21.0	40.8	29.4	15.6
PE (x)	30.0	24.8	17.6	13.6	11.8
EV/EBITDA (x)	19.3	15.5	11.2	8.8	7.4
PBV (x)	4.4	3.9	3.4	2.8	2.3
RoE (%)	15.9	16.8	20.6	22.4	21.6
RoCE (%)	14.7	15.8	19.1	21.6	21.4

Source: Bloomberg, Centrum Broking

### Company Update

India I Consumer

16 September 2023

**BUY**

Price: Rs2,070

Target Price: Rs2,383

Forecast return: 15%

Institutional Research

### Market Data

Bloomberg:	GP IN
52 week H/L:	2,252/1,079
Market cap:	Rs107.6bn
Shares Outstanding:	52.0mn
Free float:	41.7%
Avg. daily vol. 3mth:	149,850

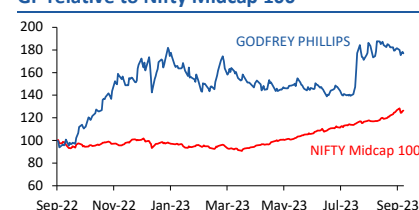
Source: Bloomberg

### Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	Unchanged

Source: Centrum Broking

### GP relative to Nifty Midcap 100



Source: Bloomberg

### Shareholding pattern

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	72.6	72.6	72.6	72.6
FII	10.1	10.1	9.9	9.9
DII	1.5	1.6	1.9	1.6
Public/other	15.8	15.7	15.6	15.9

Source: BSE



**Shirish Pardeshi**

Research Analyst, Consumer  
+91-22-4215 9634  
shirish.pardeshi@centrum.co.in



**Soham Samanta**

Research Associate, Consumer  
+91-22-4215 9634  
soham.samanta@centrum.co.in

Consumer

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	41,058	41,058	0.0	44,299	44,299	0.0
EBITDA	9,237	9,237	0.0	10,410	10,410	0.0
EBITDA margin %	22.5	22.5	0bp	23.5	23.5	0bp
Adj. PAT	7,872	7,872	0.0	9,103	9,103	0.0
Diluted EPS (Rs)	151.4	151.4	0.0	175.1	175.1	0.0

Source: Centrum Broking

### Key assumptions

Y/E Mar	FY24E	FY25E
Volume growth	9.0	6.0

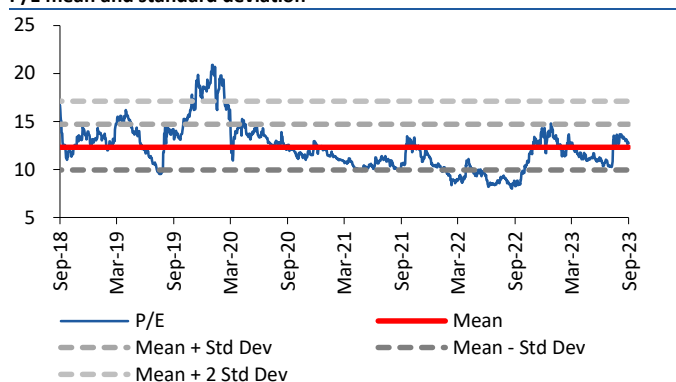
Source: Centrum Broking

### Valuations

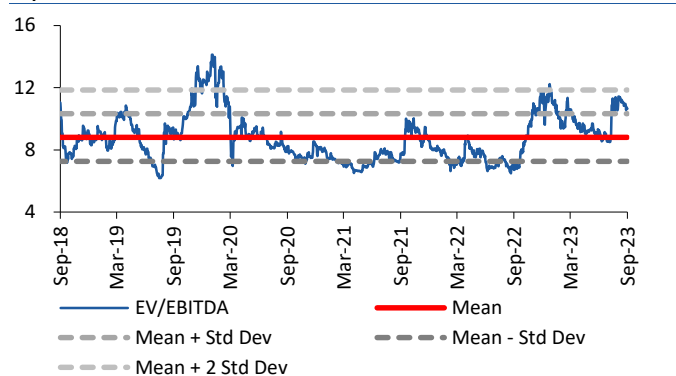
In line with our argument, cigarette industry witnessed strong volume growth in FY23 led by higher sales in RSFT segment, yet after strong Q1 the recent trend appears to be weak. We believe strong tailwinds for RSFT segment and rising penetration of Marlboro may drive revenues for GP. TFS focus on driving profitability could influence operating margins for GP. We remain hopeful on rural recovery, which could provide strong tailwinds for GP. Considering rising dividend income from associate (IPM) we retain Buy with DCF-based TP Rs2,383 (implying 13.6x FY25E EPS). Risk: sharp increase in taxation and higher competition.

Valuations	Rs/share
DCF-based target price	2383
WACC (%)	13.5
Terminal growth rate (%)	2.5

### P/E mean and standard deviation



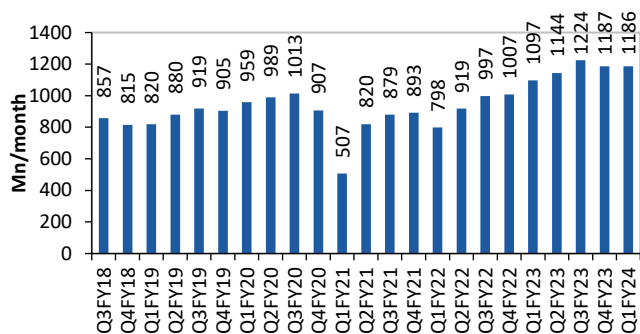
### EV/EBITDA mean and standard deviation



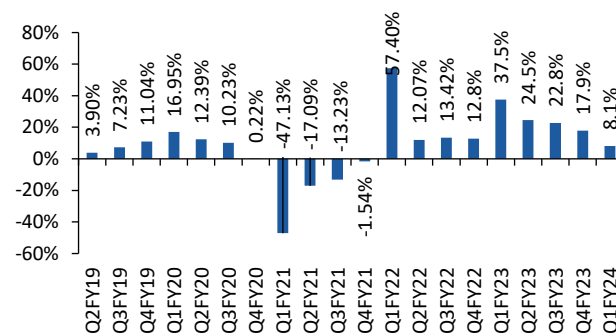
### Peer comparison

Peer comparison													
Company	Mkt Cap	CAGR (FY23-25E)				P/E (x)		EV/EBITDA (x)			ROE(%)		
	(Rs bn)	Sales	EBITDA	EPS	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
ITC	5,580.0	12.0	13.3	11.0	25.5	22.9	20.3	20.0	18.0	16.1	29.0	30.0	31.8
Godfrey Phillip	90.7	12.0	16.2	22.3	17.8	13.7	11.9	11.4	8.9	7.5	20.6	22.4	21.6
VST Industries	52.3	7.6	14.0	9.7	15.9	15.2	13.2	12.7	10.6	9.2	29.0	27.5	28.3

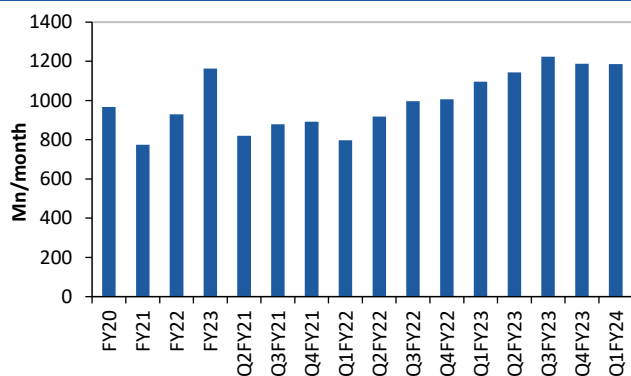
Source: Company, Centrum Broking

**Exhibit 1: Average monthly volume (mn), quarter-wise**

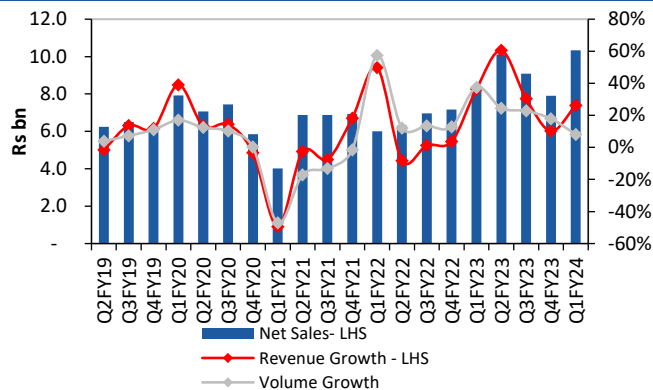
Source: Company Data, Centrum Broking

**Exhibit 2: YoY volume growth (%)**

Source: Company Data, Centrum Broking

**Exhibit 3: Average monthly volume (mn), year-wise**

Source: Company Data, Centrum Broking

**Exhibit 4: Quarterly revenue and volume growth trends**

Source: Company Data, Centrum Broking

**Exhibit 5: TFS & Confectionery Businesses –Growth opportunity**

### TFS

- The 24Seven chain of convenience stores offer daily needs groceries, ready-to-eat foods, beverages, cosmetics and personal care products, music and movies, magazines, domestic and international courier services, instant photo development, bill payments, mobile phone recharges, movie tickets and several other offerings
- The Company has set up a base kitchen in Faridabad (Delhi NCR) to prepare all kinds of ready to eat food items in a highly quality controlled environment.



Source: Company

### Confectionery

#### Funda Goli

- With the introduction of the Funda Goli range of candies, GPIL established a niche for itself as a unique confectionery brand
- Funda Goli's fun range includes flavours like Kachha Aam, Refreshing Green Apple, Mast Guava, Orange Mints and Slurpy Lychee

#### Imli Naturalz

- First of its kind candy with natural ingredients and distinguished taste

#### Funda C

- First of its kind candy proposition with Vitamin C

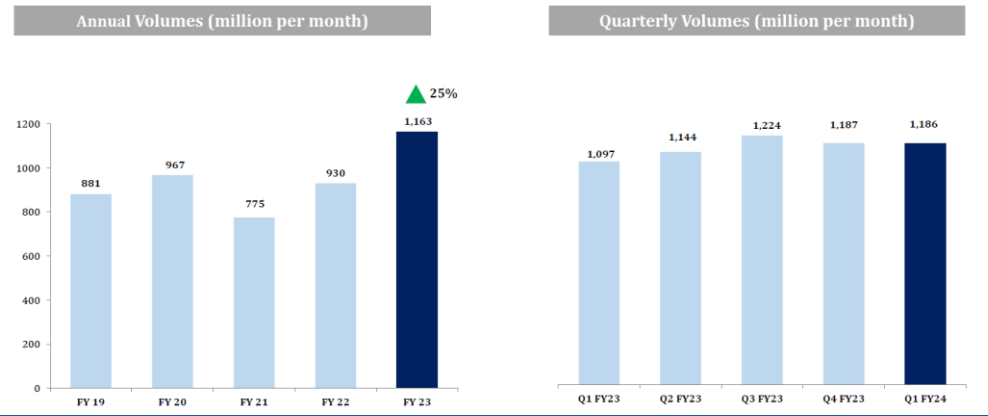
#### Funda Gum Shums

- Cool new mint gum test launched recently



Gross Sales:  
Rs. 10 crore

Exhibit 6: Cigarette Domestic Volume



Source: Company

**Exhibit 7: Segmental performance**

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue					
Tobacco	8,770	10,788	10,005	8,742	11,289
Less ED	1,543	1,723	1,925	1,783	1,989
Net Tobacco revenue	7,227	9,065	8,080	6,959	9,300
Tea and other retail products	1,045	1,124	1,093	1,010	1,130
YoY					
Tobacco	34	60	30	14	29
Tea and other retail products	35	24	12	21	8
EBIT					
Tobacco	1,833	2,135	2,179	1,397	2,232
Tea and other retail products	(181)	(193)	(208)	(182)	(165)
EBIT Margin					
Tobacco	25.4	23.5	27.0	20.0	24.0
Tea and other retail products	(17.3)	(17.2)	(19.0)	(18.1)	(14.6)

Source: Company Data, Centrum Broking

**Exhibit 8: Quarterly financials – Standalone**

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Sales</b>	<b>6,306</b>	<b>6,968</b>	<b>7,172</b>	<b>8,194</b>	<b>10,121</b>	<b>9,086</b>	<b>7,901</b>	<b>10,341</b>
Cost of goods sold	2,907	3,174	3,412	3,968	5,450	4,521	3,873	5,535
Employee Expenses	654	686	501	656	722	781	686	733
A&SP	204	179	205	237	184	205	0	0
Other Exp	1,198	1,262	1,462	1,352	1,478	1,635	1,841	1,675
<b>Operating Profit (Core EBITDA)</b>	<b>1,343</b>	<b>1,668</b>	<b>1,591</b>	<b>1,982</b>	<b>2,287</b>	<b>1,944</b>	<b>1,501</b>	<b>2,398</b>
Depreciation	349	367	364	377	383	380	367	360
EBIT	995	1,301	1,227	1,605	1,904	1,564	1,135	2,038
Interest	76	76	113	64	67	66	92	67
Other Income	436	354	293	99	500	871	508	1,370
<b>Profit Before Tax</b>	<b>1,355</b>	<b>1,579</b>	<b>1,407</b>	<b>1,640</b>	<b>2,337</b>	<b>2,369</b>	<b>1,550</b>	<b>3,341</b>
Tax	335	399	368	279	587	548	399	406
Tax rate (%)	24.7	25.3	26.2	17.0	25.1	23.1	25.7	12.1
<b>Adjusted PAT</b>	<b>1,020</b>	<b>1,180</b>	<b>1,039</b>	<b>1,362</b>	<b>1,750</b>	<b>1,821</b>	<b>1,151</b>	<b>2,935</b>
Growth (%)								
Net Sales	(8.3)	1.3	3.6	36.4	60.5	30.4	10.2	26.2
EBITDA	(4.8)	9.9	6.9	43.7	70.3	16.6	(5.6)	21.0
Adj. PAT	6.7	3.4	8.9	26.0	71.5	54.4	10.8	115.5
Margin (%)								
Gross Margin	53.9	54.5	52.4	51.6	46.2	50.2	51.0	46.5
EBITDA	21.3	23.9	22.2	24.2	22.6	21.4	19.0	23.2
EBIT	15.8	18.7	17.1	19.6	18.8	17.2	14.4	19.7
PAT	16.2	16.9	14.5	16.6	17.3	20.0	14.6	28.4

Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenues</b>	<b>24,686</b>	<b>26,453</b>	<b>35,302</b>	<b>41,058</b>	<b>44,299</b>
Operating Expense	15,691	15,740	17,812	23,054	24,328
Employee cost	2,355	2,510	2,845	3,460	3,835
Others	1,687	2,223	6,932	5,306	5,725
<b>EBITDA</b>	<b>4,954</b>	<b>5,981</b>	<b>7,714</b>	<b>9,237</b>	<b>10,410</b>
Depreciation & Amortisation	1,385	1,422	1,507	1,699	1,822
<b>EBIT</b>	<b>3,569</b>	<b>4,559</b>	<b>6,208</b>	<b>7,538</b>	<b>8,588</b>
Interest expenses	307	338	289	368	376
Other income	1,387	1,395	1,978	3,067	3,625
<b>PBT</b>	<b>4,649</b>	<b>5,616</b>	<b>7,896</b>	<b>10,237</b>	<b>11,838</b>
Taxes	1,080	1,296	1,812	2,365	2,734
Effective tax rate (%)	23.2	23.1	23.0	23.1	23.1
<b>PAT</b>	<b>3,569</b>	<b>4,320</b>	<b>6,084</b>	<b>7,872</b>	<b>9,103</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>3,569</b>	<b>4,320</b>	<b>6,084</b>	<b>7,872</b>	<b>9,103</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>3,569</b>	<b>4,320</b>	<b>6,084</b>	<b>7,872</b>	<b>9,103</b>
Ratios					
YE Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Growth (%)</b>					
Revenue	(12.7)	7.2	33.5	16.3	7.9
EBITDA	(12.5)	20.7	29.0	19.7	12.7
Adj. EPS	(8.0)	21.0	40.8	29.4	15.6
<b>Margins (%)</b>					
Gross	50.6	53.7	49.5	51.7	52.7
EBITDA	20.1	22.6	21.9	22.5	23.5
EBIT	14.5	17.2	17.6	18.4	19.4
Adjusted PAT	14.5	16.3	17.2	19.2	20.5
<b>Returns (%)</b>					
ROE	15.9	16.8	20.6	22.4	21.6
ROCE	14.7	15.8	19.1	21.6	21.4
ROIC	21.9	26.8	38.2	47.8	51.3
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.6	1.7	2.1	2.2	2.1
Debtors	14	19	16	14	15
Inventory	192	213	165	166	170
Creditors	73	74	65	72	74
Net working capital	253	283	268	269	289
<b>Solvency (x)</b>					
Net debt-equity	(0.5)	(0.5)	(0.6)	(0.7)	(0.7)
Interest coverage ratio	16.1	17.7	26.7	25.1	27.7
Net debt/EBITDA	(2.4)	(2.4)	(2.6)	(2.8)	(2.9)
<b>Per share (Rs)</b>					
Adjusted EPS	68.6	83.1	117.0	151.4	175.1
BVPS	464.8	523.8	613.2	736.8	884.0
CEPS	95.3	110.4	146.0	184.1	210.1
DPS	24.0	28.0	46.0	60.0	69.0
Dividend payout (%)	35.0	33.7	39.3	39.6	39.4
<b>Valuation (x)</b>					
P/E	30.0	24.8	17.6	13.6	11.8
P/BV	4.4	3.9	3.4	2.8	2.3
EV/EBITDA	19.3	15.5	11.2	8.8	7.4
Dividend yield (%)	1.2	1.4	2.2	2.9	3.3

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity share capital	104	104	104	104	104
Reserves & surplus	24,060	27,133	31,780	38,203	45,857
Shareholders fund	24,164	27,237	31,884	38,307	45,961
Minority Interest	0	0	0	0	0
Total debt	3,346	3,358	3,538	1,683	1,683
Non Current Liabilities	260	254	227	227	(2,395)
Def tax liab. (net)	70	52	20	20	20
<b>Total liabilities</b>	<b>27,840</b>	<b>30,901</b>	<b>35,669</b>	<b>40,238</b>	<b>45,270</b>
Gross block	15,839	15,593	16,688	18,625	20,676
Less: acc. Depreciation	(5,852)	(6,114)	(7,707)	(9,405)	(11,227)
Net block	9,986	9,478	8,982	9,220	9,448
Capital WIP	262	415	211	211	211
Net fixed assets	10,248	9,893	9,193	9,431	9,660
Non Current Assets	501	476	576	576	576
Investments	0	0	0	0	0
Inventories	6,706	7,564	8,560	9,509	10,048
Sundry debtors	1,237	1,556	1,495	1,739	1,876
Cash & Cash Equivalents	15,022	17,549	23,962	27,710	32,039
Loans & advances	15	17	9	9	9
Other current assets	1,455	1,407	1,590	1,314	1,418
Trade payables	2,393	2,592	3,740	4,075	4,380
Other current liab.	4,754	4,822	5,823	5,823	5,823
Provisions	197	148	152	152	152
Net current assets	17,091	20,531	25,901	30,230	35,034
<b>Total assets</b>	<b>27,840</b>	<b>30,901</b>	<b>35,669</b>	<b>40,238</b>	<b>45,270</b>
Cashflow					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Profit Before Tax	4,649	5,616	7,896	10,237	11,838
Depreciation & Amortisation	1,385	1,422	1,507	1,699	1,822
Net Interest	(706)	(657)	(1,100)	(2,699)	(3,249)
Net Change – WC	(1,341)	(174)	973	(581)	(475)
Direct taxes	(991)	(1,386)	(1,887)	(2,365)	(2,734)
<b>Net cash from operations</b>	<b>2,996</b>	<b>4,820</b>	<b>7,390</b>	<b>6,291</b>	<b>7,200</b>
Capital expenditure	(1,267)	(707)	(831)	(1,937)	(2,050)
Acquisitions, net	(242)	0	0	(2,227)	(2,450)
Investments	(1,710)	(1,671)	(4,664)	0	0
Others	38	54	137	0	0
<b>Net cash from investing</b>	<b>(3,180)</b>	<b>(2,325)</b>	<b>(5,359)</b>	<b>(4,164)</b>	<b>(4,500)</b>
<b>FCF</b>	<b>(184)</b>	<b>2,496</b>	<b>2,031</b>	<b>2,127</b>	<b>2,700</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	384	(761)	(355)	515	1,004
Dividend paid	(25)	(1,239)	(1,449)	(1,449)	(1,449)
Interest paid	(287)	(380)	(259)	(368)	(376)
Others	0	0	0	0	0
<b>Net cash from financing</b>	<b>72</b>	<b>(2,380)</b>	<b>(2,063)</b>	<b>(1,303)</b>	<b>(821)</b>
Net change in Cash	(112)	116	(32)	824	1,880

Source: Company, Centrum Broking

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#### Godfrey Phillips India



Source: Bloomberg



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PORTFOLIO MANAGER

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SEBI Registration No. INH000001469

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**Website:** www.centrumbroking.com**Investor Grievance Email ID:** investor.grievances@centrum.co.in**Compliance Officer Details:**

Ajay S Bendkhale

(022) 4215 9000/9023; Email ID: compliance@centrum.co.in

**Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)****Registered and Corporate Office:**

Level -9, Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (East) Mumbai – 400098

Tel.: - +91 22 4215 9000