

## **Transcript of the 85<sup>th</sup> AGM of Godfrey Phillips India Limited held on 26<sup>th</sup> August 2022**

1. After ascertaining the requisite quorum at 3.00 P.M., the Company Secretary started the AGM proceedings with a welcome note. He requested the speaker shareholders to limit their speech to 3 minutes each. He informed the shareholders present at the meeting that if they have not cast their votes through remote e voting earlier, window of e voting has been enabled for them to cast their votes in course of the meeting.
2. Mr. R. A. Shah, Chairman of the Board presided over the meeting and upon being informed about the quorum being present, declared the meeting to order. The Chairman welcomed the shareholders and in his address to them, he spoke about various macroeconomic factors prevailing in the world economy currently, touched upon various factors impacting tobacco industry in India and how the Company has achieved stellar growth under the leadership of Dr. Bina Modi, MD & CEO. Also, he thanked all the stakeholders for their continued support to the Company and its management.
3. With the permission of the Chair, Dr. Lalit Bhasin, Chairman of the Audit Committee took charge of the proceedings and introduced panellists (directors and other company officials) present there at the meeting.
4. The Chairman requested the meeting to take the Notice convening the meeting, Directors' report, Audited Accounts, Statutory auditors' report and Secretarial auditors' report as tabled and read and that there are no qualifications or adverse remarks in these reports.
5. The Chairman announced that statutory registers and other inspection documents shall remain open and accessible for electronic inspection during the meeting.
6. At the request of the Chairman, Dr. Bina Modi, MD & CEO, addressed the shareholders. In her speech she said that the Company was emerging stronger and healthier and is scaling new heights and is pursuing organic growth strategy which will capture economies of scale, allowing better utilisation of existing infrastructure. Further, she stated that the Company is trying very hard to expand its product portfolio, increase geographical footprint, improve operational efficiency and focus on core competencies and is committed to the highest standards of Health, Security and Environment and Corporate Governance. Dr. Modi expressed her heartfelt gratitude to Mr. R A Shah who shouldered Chairmanship of the Board for over five decades. Also, Mr. Shah was given a standing ovation with a big round of applause.
7. The Chairman reiterated about the availability of e voting facility during the AGM for those who could not exercise vote earlier. He further announced that Mr. V. Ramachandran, Proprietor of V R Associates, Company Secretaries, has been appointed as the Scrutinizer for e voting process.
8. The Chairman read first item of agenda on adoption of audited financial statements and requested speakers to raise their queries one by one.

9. The Moderator from Link Intime (R & TA) took over and invited the registered speakers one by one. In total there were 10 shareholders who had registered themselves as speakers namely, Mr. Yusuf Rangwala, Ms. Lekha Satish Shah, Mrs. C Elizabeth Mascarenhas, Mr. Satish Shah, Ms. Chandiramani Rekha Mohan, Mr. Hitesh SatishChandra Doshi, Mr. Ajit Sanjay Darda , Mr. Gautam Tiwari, Mrs. Asha Lata Maheshwari, and Mr. Keshav Garg.
10. The questions raised by various shareholders included-
  - Q. What is the Kind of arrangement with IPM and Margin % on manufacturing and distribution?
  - Q. 24% EBITDA highest in decade? Can we expect margin to stay at this level? What has contributed the most?
  - Q. At 24%, we still lag behind our competitors in terms of EBITDA. Is it not possible to narrow down the gap with our competitors and we enjoy the industry leading margins.
  - Q. What is the outlook for FY23 in terms of top-line & bottom-line?
  - Q. When will our non-tobacco businesses break-even?
  - Q. What is the need for 7 subsidiaries & why don't we merge them?
  - Q. When will we start consolidating our share of profit of IPM India Wholesale Trading Pvt. Limited?
  - Q. Please refer to Page 161, Note 9.2.2:  
Investments measured at fair value through other comprehensive income Unquoted equity instrument: K K Modi Investment & Financial Services Private Limited 91,875 Equity Shares of Rs.10 each fully paid up - Rs.178cr vs Rs.136cr yoy.
  - Q. What is our effective shareholding in K K Modi Investment & Financial Services Private Limited & when will we start consolidating the same?
  - Q. What were the revenues & OPM from manufacturing & distribution of Marlboro cigarettes for IPM India Wholesale Trading Private Limited in FY22 & FY21?
  - Q. What is the threat from e cigarettes in the long term?
  - Q. What is the 'Technical services fee and royalty' of Rs.12.48cr vs Rs.10.81cr yoy, under 'other expenses'?
  - Q. Please do maximum share buy backs instead of dividend as the former is more tax efficient & will also increase our EPS permanently.
  - Q. Could you please provide breakup of cigarette revenues in terms of our different brands namely: Marlboro, Four Square, Red & White, Cavender, Stellar, North Pole & Tipper?
  - Q. Could you help us understand the volume of Cigarette Sticks in the past three years in exports and domestic sales? Also, it would be very helpful if you could provide us with projections for the current year and next two-three years.
  - Q. How much is the Gross margin and EBITDA margin in export sales and domestic sales of cigarettes?
  - Q. How much is Marlboro brand cigarette share in overall cigarette sales in India and also % share in total company's sales?
  - Q. Our Other Expenses (excluding material cost, manufacturing cost, employee cost, interest and depreciation expenses) is approx 15% of sales, which seems higher than our competitors. Will these expenses as % of sales decline in the coming years?
  - Q. Also, our material cost seems higher than competitors, what is our strategy to bring this down?
  - Q. which new product is R&D developing?
  - Q. What is our ESG rating?
  - Q. What is market share of Funda C?

- Q. What is the value of leaf tobacco exported?
- Q. Do we have retail stores in Mumbai?
- Q. what is the proportion of online retail sales to total retail sales?
- Q. what is the capacity utilisation?
- Q. what the capex plan for FY23?
- Q. what is our dividend policy?
- Q. What is our market share?
- Q. Details of transfer to IPEF?
- Q. Is there any cannibalisation by Marlboro to our brands?
- Q. which market do we export tobacco?

11. The chairman then asked CFO Mr. Sunil Agrawal to respond to the questions raised by the shareholders.

12. Mr. Sunil Agrawal responded on questions as below:

Q. What is the Kind of arrangement with IPM and Margin % on manufacturing and distribution?

Ans: GPI manufactures and distributes Marlboro brand of cigarettes in India for and on behalf IPM India Wholesale Trading Pvt. Ltd. in accordance with the agreements entered into between the Parties. Both the mfg. and distribution arrangements operate on proportionate cost-plus basis. GPI earns reasonably good returns.

Q. 24% EBITDA highest in decade? Can we expect margin to stay at this level? What has contributed the most?

Ans: Leadership focus in last 2 years has been on cost optimisation and rationalization at all levels and across all functions in the organisation. Stable tax regime is another reason. These coupled with rebound in volumes particularly post-Covid has contributed to increased EBITDA margin.

Q. At 24%, we still lag behind our competitors in terms of EBITDA. Is it not possible to narrow down the gap with our competitors and we enjoy the industry leading margins.

Ans: You will appreciate that comparing GPI with others (ITC & VST) is not possible on 'like to like' basis. ITC is a dominant player with about 78% market share, has a national presence with extensive distribution network, has superior brand saliency, its brands have superior pricing power and it enjoys economies of scale. VST on the other hand operates only in tobacco segment and enjoys slightly superior product mix.

GPI with its presence mainly in North and West, its diversification, product profile, and cigarette volume mix is put to disadvantage in terms of EBITDA margin.

Of course, the management is focussing very hard to improve the profitability of your Company by increasing productivity and efficiency of its spends and is continuously evaluating the performance of non-tobacco segments and is therefore, quite hopeful of better EBITDA performance in times to come.

Q. What is the outlook for FY23 in terms of top-line & bottom-line?

Ans: Going by the performance of the Company in Q1 of FY23 as can be seen from the published results, we are quite optimistic to deliver good growth in both these performance parameters over the last year.

Q. When will our non-tobacco businesses break-even?

Ans: The Company management is quite conscious of losses in the non-tobacco businesses and has been working continuously to reduce losses and eventually turn these businesses profitable. Also, the Board and its committees are carefully monitoring the performance and discussing on way forward for these businesses.

Q. What is the need for 7 subsidiaries & why don't we merge them?

Ans: none of our subsidiaries is a material subsidiary. Out of these seven, one is engaged in mfg of cigarettes, another is an investment vehicle and thee including a stepdown are holding valuable real estate assets for potential commercial use over a period. The remaining two are overseas subsidiaries and both are under closure. We have taken note of your suggestion.

Q. When will we start consolidating our share of profit of IPM India Wholesale Trading Pvt. Limited?

Ans: In Q1 of FY23 IPM's net worth has turned positive and we have started accounting for our share in their profit as can be seen for the published consolidated financial results for Q1.

Q. Please refer to Page 161, Note 9.2.2:

Investments measured at fair value through other comprehensive income Unquoted equity instrument:

K K Modi Investment & Financial Services Private Limited 91,875 Equity Shares of Rs.10 each fully paid up - Rs.178cr vs Rs.136cr yoy

Ans: This investment is held by the Wholly owned subsidiary Chase Investments Ltd. The fair value of this investment has been determined basis valuation report obtained from an approved valuation agency.

Q. What is our effective shareholding in K K Modi Investment & Financial Services Private Limited & when will we start consolidating the same?

Ans. Only 91,875 shares of K K Modi Investments & Financial Services Pvt Limited (KKMIF) are held by the above-mentioned subsidiary company. This is 7.69% of total equity capital of KKMIF. With this shareholding, there is no requirement to consolidate the financials of KKMIF and the change in fair valuation is being captured through equity method in the consolidated financials of the Company.

Q. What were the revenues & OPM from manufacturing & distribution of Marlboro cigarettes for IPM India Wholesale Trading Private Limited in FY22 & FY21?

Ans: GPI manufactures and distributes Marlboro brand of cigarettes in India for and on behalf IPM India Wholesale Trading Pvt. Ltd. in accordance with the agreements entered into between the Parties. Both the mfg and distribution arrangements operate on proportionate cost-plus basis.

Q. What is the threat from e cigarettes in the long term?

Ans: The threat perceived by the Govt at the time of enforcing the ban on e-cig was that it will lure the youth to addiction to harmful effects of e-cigarettes in India. We are ready to pursue this business as before if the Govt were to lift the ban.

Q. What is the 'Technical services fee and royalty' of Rs.12.48cr vs Rs.10.81cr yoy, under 'other expenses'?

Ans: This is in terms of the Technical Assistance Agreement entered into 1st October 2008 whereby royalty calculated based on 1% of ex-factory selling price of certain brand of

cigarettes sold by the Company in the Indian market is paid to Philip Morris Products S.A, being the brand owner.

Q. Please do maximum share buy backs instead of dividend as the former is more tax efficient & will also increase our EPS permanently.

Ans: we have taken note of your suggestion and will see the feasibility.

Q. Could you please provide breakup of cigarette revenues in terms of our different brands namely: Marlboro, Four Square, Red & White, Cavender, Stellar, North Pole & Tipper?

Ans.

Franchise	FY22	
	Volume (million cigs)	Sales value (Rs Cr)
Four Square	6211	1236.25
R&W	762	137.34
Cavender	1132	214.23
Stellar	467	64.94
North Pole	145	20.40
Tipper & Others	153	14.48
Marlboro	2364	523.40
<b>Total</b>	<b>11234</b>	<b>2211.04</b>

Q- Could you help us understand the volume of Cigarette Sticks in the past three years in exports and domestic sales? Also, it would be very helpful if you could provide us with projections for the current year and next two-three years.

Ans.

Volume (Million Cigs)	FY22	FY21	FY20
Domestic	11234	9345	11688
Export	1950	3095	3967

We hope to sell 15~16 billion cigs in FY23 out of which 18~20% will be export.

Q- How much is the Gross margin and EBITDA margin in export sales and domestic sales of cigarettes?

Ans; Tobacco division EBITDA is at 28% in FY22. We are not calculating EBITDA for domestic & exports separately due to common resources.

- Operating EBITDA- Dom Cig 31%, Leaf tobacco exports 20% and Cig/Cut Tobacco exports 17%

Q. How much is Marlboro brand cigarette share in overall cigarette sales in India and also % share in total company's sales?

Ans; In FY22 Marlboro sales as % of domestic cig sales is 23.7% and 16.4% of total sales income of the company.

Q. Our Other Expenses (excluding material cost, manufacturing cost, employee cost, interest and depreciation expenses) is approx 15% of sales, which seems higher than our competitors. Will these expenses as % of sales decline in the coming years?

Ans; Product mix, brand saliency, economies of scale, distribution penetration, and need for promotional inputs vary from company to company and therefore, the cost structure differ from company to company.

Nonetheless, we are sincerely working on cost optimization.

Q; Also, our material cost seems higher than competitors, what is our strategy to bring this down?

Ans; Product mix and size of business of all three tobacco companies is different therefore, material cost ratios vary from company to company. But we are not way above the industry average.

Q. which new product is R&D developing?

Ans. New development by R&D is a continuous process.

Q. What is our ESG rating?

Ans. Not yet got done.

Q. What is market share of Funda C?

Ans. Not significant

Q. What is the value of leaf tobacco exported?

Ans. Rs 440 crore in FY22

Q. Do we have retail stores in Mumbai?

Ans. No

Q. what is the proportion of online retail sales to total retail sales?

Ans. It's improving on YOY basis

Q. what is the capacity utilisation?

Ans. About 50%

Q. what the capex plan for FY23?

Ans. About Rs. 75 crore for replacement capex

Q. what is our dividend policy?

Ans. It is given on page 28 of the Annual Report

Q. What is our market share?

Ans. Our domestic cig market share is about 13%

Q. Details of transfer to IPEF?

Ans. It has been done as per timelines prescribed under the statute

Q. Is there any cannibalisation by Marlboro to our brands?

Ans. Not really

Q. which market do we export tobacco?

Ans. Across all regions in Europe, Southeast Asia, Middle East, etc.

13. Many speaker shareholders complimented the management for overall very good performance and increased rate of dividend. Shareholders expressed satisfaction over the services provided to the investors by the Company's secretarial department under the leadership of Mr Sanjay Gupta and Linkin Time (RTA). Some wished farewell to Mr R A Shah who demits office on conclusion of the AGM and welcomed Dr Bina Modi as the new Chairperson.
14. All the other resolutions as per the Notice were read out for seeking approval.
15. Mr. Sanjay Gupta, Company Secretary and Mr. Sharad Aggarwal, Whole-time Director were authorised by the Chairman to declare voting results within the time permissible under the law and in the format as prescribed, intimate the same to the Stock Exchanges along with the Scrutiniser's report and upload them on the Company's website.
16. The Chairman thanked all the shareholders and the panellists for their cooperation and support during the meeting and wished them all the best of health for themselves and their families going forward. And with these remarks, the Chairman declared the 85<sup>th</sup> AGM as closed.