

### Strong recovery in cigarette volumes in Q1

Despite challenging market conditions, Godfrey Phillips (GP) saw sequential recovery post June. Q1FY22 revenue/EBITDA/PAT grew 49.8%/157%/108.8%, beating our estimates. Cigarette volumes grew 57.4%. International business grew 47% in value terms. With supply chain issues behind, management indicated *Marlboro* supported volume growth. Gross revenue grew 68.2% for tobacco segment; non-tobacco segment including TFS grew 15%. Favorable product mix and higher scale of operations resulted in 482bp gross margin expansion to 54.1%. Despite rising employee cost (+27.3%) and ASP (+55.9%), EBITDA margin expanded 957bp to 23%. Management said July/August saw strong month-on-month recovery. It expects further pick-up in exports and domestic sales, with improving consumer mobility and relaxations post vaccination driving OOH consumption. Our earnings estimates are unchanged. BUY with a DCF-based TP of Rs1,310 (15.1x FY23E EPS).

#### Cigarette volumes recovered sharply

Cigarette and other related products posted a net sales growth of 49.8%, driven by 57% growth in cigarette volumes; exports grew 47%. Management said that the revival in Q1 was led by (1) recovery to pre-Covid levels in June, (2) gradual increase in consumer mobility in top cities, and (3) faster pace of trade promotions. TFS and chewing tobacco business grew 15%, despite only 93 stores being open; the company expects strong recovery in footfalls in TFS stores in Q2. The management said that consumers opting for contactless shopping through e-commerce led to slower offtake for processed food in Q1.

#### Higher scale resulted in gross margin expansion; EBITDA margin expanded to 23%

In Q1, GP's gross margin expanded 482bp, led by (1) favorable product mix, (2) lower share of traded goods, and (3) higher operating leverage. Despite rise in ASP (+55.9%), employee cost (+27.3%), and other expenses (+29%), EBITDA margin expanded 957bp to 23%. EBIT margin declined for TFS, as only 93 stores were operational in Q1 and contribution from higher-margin prepared dishes and foods was lower.

#### Easing lockdowns to improve pace of recovery, as long-term growth drivers are intact

GP's strategy is driven by efforts such as (1) driving cigarette volumes across all key markets, (2) focusing on new markets to catch the shift in demand towards value-for-money cigarettes, (3) reinforcing partnership with Phillip Morris, acting as key growth engine for its distribution efforts, (4) strengthening existing export markets, and (5) capitalizing on fast-growing retail space through TFS, using product innovations. However, increase in competition and surge in discounting to counter illegal imports and local counterfeits remain challenges for the industry. Our discussions with trade partners suggest strong pick-up in value-for-money cigarettes, which bodes well for GP, given its focus on this segment. Also, expected pick-up in footfalls should drive TFS revenues.

#### Valuation and risks

GP has shown strong recovery in Q1, with supply issues behind, resulting in volume growth. We believe GP could benefit from strong tailwinds for RSFT/DSFT segment and entry into the South with its *Marlboro* brand. Considering the gradual easing of lockdowns post the second Covid wave, we expect rebound in sales. We retain our earnings estimates and maintain BUY with a DCF-based TP of Rs1,310 (15.1x FY23E EPS). Risks to our call include sharp increase in taxation, significant increase in competitive intensity, and disruption in sales due to intermittent lockdowns.

#### Financial and valuation summary

YE Mar (Rs mn)	1QFY22A	1QFY21A	YoY (%)	4QFY21A	QoQ (%)	FY21A	FY22E	FY23E
Revenues	6,007	4,009	49.8	6,923	(13.2)	24,686	27,055	29,926
EBITDA	1,379	536	157.0	1,489	(7.4)	4,954	5,360	5,978
EBITDA margin (%)	23.0	13.4	957bps	21.5	145bps	20.1	19.8	20.0
Adj. Net profit	1,081	518	108.8	954	13.3	3,569	3,926	4,514
Adj. EPS (Rs)	20.8	10.0	108.8	18.4	13.3	68.6	75.5	86.8
EPS growth (%)						(8.0)	10.0	15.0
PE (x)						15.2	13.9	12.1
EV/EBITDA (x)						8.6	7.2	5.9
PBV (x)						2.3	2.0	1.8
RoE (%)						15.9	15.4	15.8
RoCE (%)						14.7	14.4	14.9

Source: Company, Centrum Broking

#### Result Update

India I Consumer

16 August, 2021

**BUY**

Price: Rs1,048

Target Price: Rs1,310

Forecast return: 25%

Institutional Research

#### Market Data

Bloomberg:	GP IN
52 week H/L:	1,110/832
Market cap:	Rs54.5bn
Shares Outstanding:	52.0mn
Free float:	41.4%
Avg. daily vol. 3mth:	1,61,779

Source: Bloomberg

#### Changes in the report

Rating:	BUY; unchanged
Target price:	Rs1,310; up from Rs1,305
EPS:	FY22E: Rs75.5; unchanged FY23E: Rs86.8; unchanged

Source: Centrum Broking

#### Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	72.8	72.8	72.6	72.3
FII	10.3	10.6	10.7	10.8
DII	1.7	1.7	1.8	2.4
Public/other	15.3	15.0	15.0	14.6

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY20	Actual Q1FY20	Variance (%)
Revenue	5,123	6,007	17.3
EBITDA	871	1,379	58.3
EBITDA margin	17.0	23.0	595bps
PBT	793	1,276	60.8
Adj. PAT	595	1,061	78.4

Source: Bloomberg, Centrum Broking



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Consumer

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenues	27,055	27,055	0.0	29,926	32,385	0.0
EBITDA	5,360	5,360	0.0	5,978	6,469	0.0
EBITDA Margin (%)	19.8	19.8	0bps	20.0	20.0	0bps
PAT	3,926	3,926	0.0	4,514	4,688	0.0
EPS	75.5	75.5	0.0	86.8	86.8	0.0

Source: Centrum Broking

### Godfrey Phillips India versus NIFTY 50

	1m	6m	1 year
GP IN	0.4	13.4	11.6
NIFTY 50	4.0	8.2	48.2

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY22E	FY23E
Volume Growth (%)	6.5	7.5

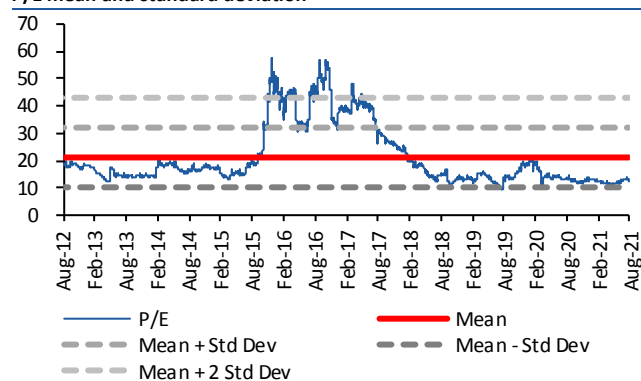
Source: Centrum Broking

### Valuations

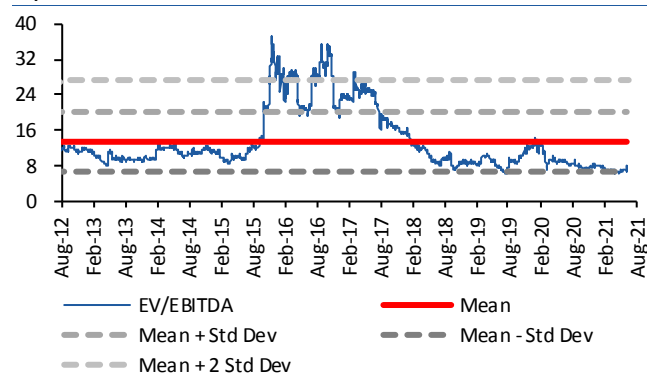
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Valuations	Rs/share
DCF-based target price (Rs)	1,310
WACC (%)	13.5
Terminal growth (%)	2.5

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation

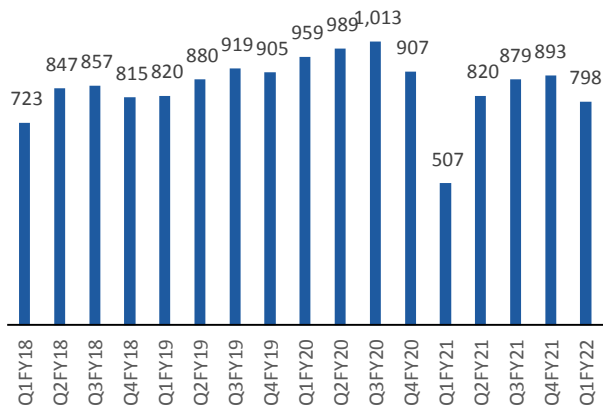


Source: Bloomberg, Centrum Broking

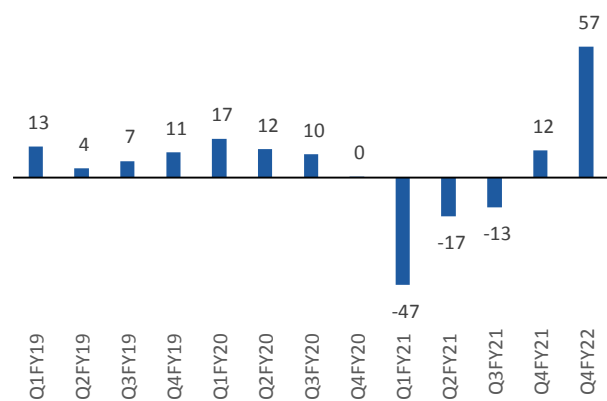
### Peer comparison

Cigarettes	Mkt Cap Rs Bn	CAGR FY21-FY23E (%)			P/E (x)			EV/ EBITDA (x)			RoE (%)		
		Sales	EBITDA	PAT	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ITC	2,594.2	10.9	18.4	16.9	19.9	16.3	14.6	15.3	12.2	10.7	21.2	26.4	28.4
<b>Godfrey Phillip</b>	<b>54.4</b>	<b>10.1</b>	<b>9.9</b>	<b>12.5</b>	<b>15.2</b>	<b>13.9</b>	<b>12.1</b>	<b>8.6</b>	<b>7.2</b>	<b>5.9</b>	<b>15.9</b>	<b>15.4</b>	<b>15.8</b>
VST Industries	52.2	9.8	6.9	6.9	16.8	15.8	14.7	10.6	10.1	8.9	34.0	31.2	29.1

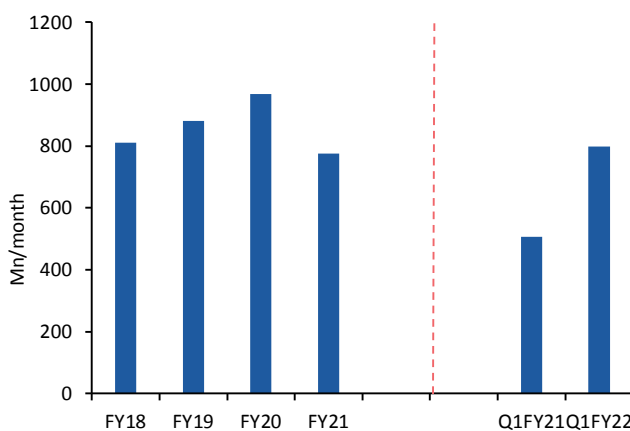
Source: Company, Centrum Broking

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

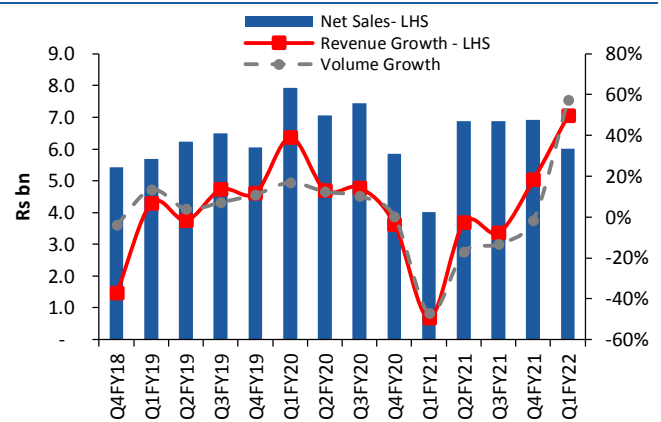
Source: Company Data, Centrum Broking

**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: Segmental performance**

Rs mn	Q1FY22	Q1FY21	Growth (%)	FY21	FY20	Growth (%)
Revenue (inc other operating expense)						
Tobacco	6,531	3,883	68.2	26,235	26,771	(2.0)
Less ED	1,240	505	145.4	4,361	1,914	127.8
Net Tobacco revenue	5,290	3,378	56.6	21,874	24,856	(12.0)
Tea and other retail products	777	676	15.0	3,022	3,676	(17.8)
EBIT						
Tobacco	1,278	494	158.9	4,679	5,464	(14.4)
Tea and other retail products	-224	-287	nm	-998	-1,231	nm
EBIT Margin						
Tobacco	24.2	14.6	955 bps	21.4	22.0	-59 bps
Tea and other retail products	-28.9	-42.4	nm	-33.0	-33.5	nm

Source: Company Data, Centrum Broking

**Exhibit 6: Quarterly financials – Standalone**

(Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Sales</b>	<b>7,062</b>	<b>7,440</b>	<b>5,852</b>	<b>4,009</b>	<b>6,877</b>	<b>6,878</b>	<b>6,923</b>	<b>6,007</b>
Cost of goods sold	3,076	3,346	2,472	2,034	3,548	3,363	3,240	2,758
Employee Expenses	709	654	555	525	611	576	643	668
A&SP	373	387	394	86	170	179	233	134
Other Exp	1,541	1,522	1,586	828	1,136	1,243	1,319	1,068
<b>Operating Profit (Core EBITDA)</b>	<b>1,363</b>	<b>1,532</b>	<b>845</b>	<b>536</b>	<b>1,412</b>	<b>1,517</b>	<b>1,489</b>	<b>1,379</b>
Depreciation	348	359	469	335	334	332	384	343
<b>EBIT</b>	<b>1,015</b>	<b>1,173</b>	<b>376</b>	<b>202</b>	<b>1,078</b>	<b>1,185</b>	<b>1,105</b>	<b>1,036</b>
Interest	78	77	73	73	71	70	94	74
Other Income	378	360	359	454	273	408	254	313
<b>Profit Before Tax</b>	<b>1,315</b>	<b>1,456</b>	<b>662</b>	<b>583</b>	<b>1,280</b>	<b>1,524</b>	<b>1,264</b>	<b>1,276</b>
Tax	162	362	179	65	324	382	310	195
Tax rate (%)	12.3	24.8	27.1	11.1	25.3	25.1	24.5	15.3
<b>Adjusted PAT</b>	<b>1,153</b>	<b>1,094</b>	<b>483</b>	<b>518</b>	<b>956</b>	<b>1,142</b>	<b>954</b>	<b>1,081</b>
Growth (%)								
Net Sales	13.2	14.4	(3.4)	(49.4)	(2.6)	(7.6)	18.3	49.8
EBITDA	22.5	44.2	96.6	(72.1)	3.6	(1.0)	76.3	157.0
Adj. PAT	63.8	39.5	36.4	(54.9)	(17.1)	4.3	97.7	108.8
Margin (%)								
Gross Margin	56.4	55.0	57.8	49.3	48.4	51.1	53.2	54.1
EBITDA	19.3	20.6	14.4	13.4	20.5	22.1	21.5	23.0
EBIT	14.4	15.8	6.4	5.0	15.7	17.2	16.0	17.3
PAT	16.3	14.7	8.2	12.9	13.9	16.6	13.8	18.0

Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenues</b>	<b>24,494</b>	<b>28,274</b>	<b>24,686</b>	<b>27,055</b>	<b>29,926</b>
Operating Expense	16,106	17,866	15,691	17,299	18,945
Employee cost	2,516	2,500	2,355	2,502	2,831
Others	2,344	2,246	1,687	1,894	2,172
<b>EBITDA</b>	<b>3,528</b>	<b>5,662</b>	<b>4,954</b>	<b>5,360</b>	<b>5,978</b>
Depreciation & Amortisation	959	1,524	1,385	1,585	1,698
<b>EBIT</b>	<b>2,569</b>	<b>4,139</b>	<b>3,569</b>	<b>3,775</b>	<b>4,281</b>
Interest expenses	9	301	307	313	319
Other income	1,066	1,322	1,387	1,787	2,073
<b>PBT</b>	<b>3,626</b>	<b>5,159</b>	<b>4,649</b>	<b>5,248</b>	<b>6,034</b>
Taxes	1,217	1,280	1,080	1,323	1,521
Effective tax rate (%)	33.6	24.8	23.2	25.2	25.2
<b>PAT</b>	<b>2,410</b>	<b>3,879</b>	<b>3,569</b>	<b>3,926</b>	<b>4,514</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>2,410</b>	<b>3,879</b>	<b>3,569</b>	<b>3,926</b>	<b>4,514</b>
Extraordinary items	(18)	(102)	(14)	0	0
<b>Reported PAT</b>	<b>2,391</b>	<b>3,777</b>	<b>3,556</b>	<b>3,926</b>	<b>4,514</b>
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Growth (%)</b>					
Revenue	7.4	15.4	(12.7)	9.6	10.6
EBITDA	55.1	60.5	(12.5)	8.2	11.5
Adj. EPS	71.2	61.0	(8.0)	10.0	15.0
<b>Margins (%)</b>					
Gross	56.3	55.7	50.6	55.0	55.4
EBITDA	14.4	20.0	20.1	19.8	20.0
EBIT	10.5	14.6	14.5	14.0	14.3
Adjusted PAT	9.8	13.7	14.5	14.5	15.1
<b>Returns (%)</b>					
ROE	13.4	19.6	15.9	15.4	15.8
ROCE	13.2	18.9	14.7	14.4	14.9
ROIC	20.8	31.0	21.9	23.4	28.2
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	2.3	1.9	1.6	1.5	1.6
Debtors	12	9	14	14	12
Inventory	184	172	192	193	177
Creditors	79	79	73	77	76
Net working capital	180	177	253	265	287
<b>Solvency (x)</b>					
Net debt-equity	(0.6)	(0.4)	(0.5)	(0.6)	(0.6)
Interest coverage ratio	411.0	18.8	16.1	17.1	18.7
Net debt/EBITDA	(3.2)	(1.5)	(2.4)	(3.0)	(3.2)
<b>Per share (Rs)</b>					
Adjusted EPS	46.3	74.6	68.6	75.5	86.8
BVPS	364.7	396.4	464.8	518.7	583.5
CEPS	64.8	103.9	95.3	106.0	119.5
DPS	10.0	24.0	24.0	31.0	35.0
Dividend payout (%)	21.7	33.0	35.1	41.1	40.3
<b>Valuation (x)</b>					
P/E	22.6	14.0	15.2	13.9	12.1
P/BV	2.9	2.6	2.3	2.0	1.8
EV/EBITDA	12.2	8.1	8.6	7.2	5.9
Dividend yield (%)	1.0	2.3	2.3	3.0	3.3

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	104	104	104	104	104
Reserves & surplus	18,859	20,505	24,060	26,865	30,234
Shareholders fund	18,963	20,609	24,164	26,969	30,338
Total debt	412	3,557	3,346	3,346	3,346
Non Current Liabilities	213	245	260	260	260
Def tax liab. (net)	21	24	70	70	70
<b>Total liabilities</b>	<b>19,608</b>	<b>24,435</b>	<b>27,840</b>	<b>30,645</b>	<b>34,014</b>
Gross block	10,431	15,006	15,839	17,686	18,817
Less: acc. Depreciation	(3,782)	(5,187)	(5,852)	(7,437)	(9,135)
Net block	6,649	9,819	9,986	10,249	9,682
Capital WIP	143	165	262	262	262
Net fixed assets	6,793	9,984	10,248	10,510	9,944
Non Current Assets	731	768	501	501	501
Inventories	5,690	6,140	6,706	6,152	6,756
Sundry debtors	670	667	1,237	904	1,000
Cash & Cash Equivalents	11,708	12,267	15,022	19,343	22,592
Loans & advances	13	14	15	15	15
Other current assets	837	1,132	1,455	893	988
Trade payables	2,909	2,506	2,393	2,723	2,832
Other current liab.	3,818	3,882	4,754	4,754	4,754
Provisions	105	151	197	197	197
Net current assets	12,084	13,682	17,091	19,634	23,569
<b>Total assets</b>	<b>19,608</b>	<b>24,435</b>	<b>27,840</b>	<b>30,645</b>	<b>34,014</b>
Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	4,102	6,082	5,328	5,360	5,978
Net Change – WC	690	(1,092)	(1,341)	1,778	(686)
Direct taxes	(1,277)	(1,225)	(991)	(1,323)	(1,521)
<b>Net cash from operations</b>	<b>3,515</b>	<b>3,766</b>	<b>2,996</b>	<b>5,815</b>	<b>3,771</b>
Capital expenditure	(1,238)	(1,150)	(1,267)	(1,117)	(1,131)
Acquisitions, net	(55)	(48)	(242)	0	0
Investments	(1,871)	392	(1,710)	0	0
Others	44	102	38	1,787	2,073
<b>Net cash from investing</b>	<b>(3,119)</b>	<b>(704)</b>	<b>(3,180)</b>	<b>670</b>	<b>942</b>
<b>FCF</b>	<b>396</b>	<b>3,062</b>	<b>(184)</b>	<b>6,485</b>	<b>4,713</b>
Increase/(decrease) in debt	145	(604)	384	(253)	(253)
Dividend paid	(498)	(2,087)	(25)	(1,248)	(1,248)
Interest paid	(41)	(299)	(287)	(313)	(319)
Others	0	0	0	0	0
<b>Net cash from financing</b>	<b>(394)</b>	<b>(2,991)</b>	<b>72</b>	<b>(1,814)</b>	<b>(1,821)</b>
Net change in Cash	2	72	(112)	4,671	2,892

Source: Company, Centrum Broking

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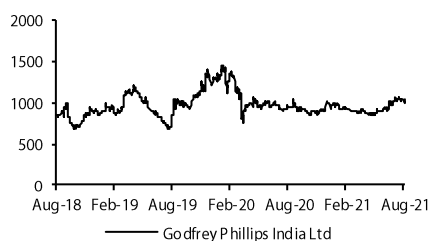
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#### Godfrey Phillips India



Source: Bloomberg

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