

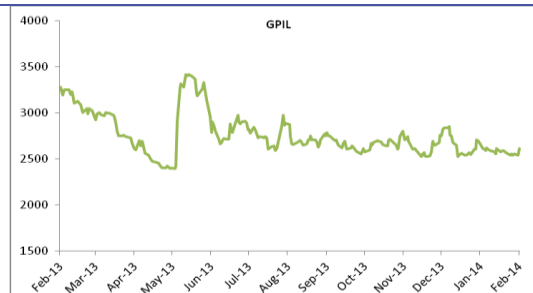
## Godfrey Phillips India Ltd. (GPIL)

Recommendation	BUY
CMP	Rs. 2760
Target Price	15-20% upside
Sector	FMCG

## Stock Details

BSE Code	500163
NSE Code	GODFRYPHLP
Bloomberg Code	GP IN
Market Cap (Rs cr)	2870
Free Float (%)	28.9%
52- wk HI/Lo (Rs)	3550/2250
Avg. volume BSE (Quarterly)	398
Dividend (FY13)	Rs. 40 per share
Face Value (Re)	10.0
Shares o/s (Cr)	10.4

Relative Performance	1Mth	3Mth	1Yr
GPIL	-2.7%	-3.6%	-20.5%
Sensex	-3.1%	-3.6%	2.3%



Shareholding Pattern	31 <sup>st</sup> Dec 13
Foreign promoter	25.1%
Indian Promoter	46.0%
Institutional (Incl. FII)	15.2%
Corporate Bodies	0.8%
Public & others	13.0%

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Year (cons)	Net Sales (Rs cr)	Growth (%)	EBIDTA	Margin (%)	APAT (Rs cr)	Margin (%)	EPS (Rs.)	P/E (x)	P/BV (x)	RoE
FY10	1383.9	22.2%	152.7	11.0%	115.1	8.3%	110.6	24.9	4.2	18.7%
FY11	1628.4	17.7%	275.7	16.9%	166.1	10.2%	159.7	17.3	3.6	22.3%
FY12	1910.5	17.3%	326.2	17.1%	181.5	9.5%	174.5	15.8	3.1	20.8%
FY13	2097.6	9.8%	327.0	15.6%	170.0	8.1%	163.5	16.9	2.7	17.0%

**Good result...attractive valuation; BUY**

Godfrey Phillips (GPIL) register a Total revenue growth of 18.3% YoY to Rs. 640.3cr and up by 6.1% QoQ. EBITDA margin improved by 490bps YoY to 21.3% in Q3FY14 owing to decline in input cost and jump in net revenue. PAT grew by 43.8% YoY to Rs. 70.7cr during Q3FY14.

- ✘ **Strong revenue growth in Cigarette and Tea & Other retail segment led total revenue up by 18.3% YoY:** Despite higher incidence of tax (up 18% in last two years except for cigarettes >65mm in length), GPIL has registered a strong growth in Cigarette business by 16.9% YoY to Rs 562.9cr driven largely by price hike. We believe that customers get accustomed to steep price rise as cigarettes are addictive by nature plus new addition of cigarette consumers every year will keep the demand of cigarettes undeterred. Plus, tea & other retail reported a 29% YoY growth to Rs 77.5cr.
- ✘ **Cigarette EBIT margin expanded by 500bps YoY:** GPIL reported a magnanimous jump in Cigaretet EBIT margin by 500bps YoY and by 470bps QoQ to 20.6% in Q3FY14, suggesting recovery in cigarette volumes and price hike. However, we believe after 18% increase in tax incidence in the last 2 years (highest ever), there is greater probability of moderation in tax increase, going ahead (vote on account and not a regular budget due to general elections) would be conducive for volume recovery in our view.
- ✘ **Increasing activation in cigarettes through launch of 64mm cigarette cushioning volumes without diluting margins:** Increased traction in 64mm segment is preventing a sharper volume contraction, in our view. More importantly, it is not diluting Cigarette margins. We believe market share gains, recruitment of new consumers are driving growth of 64mm.
- ✘ **PAT grew by 44% YoY:** PAT grew by 43.8% Yoy to Rs 70.7cr and by 84.9% QoQ. Pat margin stood at 11.3% in Q3FY14, up by 200bps YoY and by 480bps QoQ. Despite higher tax outgo of 34.7% in Q3FY14 as against 28.6% in Q3FY13 and 32.5% in Q2FY14, declin in Other income, the company reported substantial improvement in the profitability of the company.

**Valuation & Recommendation**

On a trailing basis, GPIL is trading at a discount compared to ITC and VST by +50% and +17% respectively. We feel that the discount is unwarranted given the sharp improvement in the Cigarette EBIT margins in the last two quarters. In addition, the increase traction in 64mm cigarette will keep the uptick in the volumes going forward without diluting its margins, in our view. Though, the Tea & other retail segment have not broken-even (contributes ~12% to the total revenue, will not negatively impact the operating margins in a big way. At CMP of Rs. 2760, GPIL is trading at a PE of 14.9x on a trailing basis. With sharp improvement in the Cigarette EBIT margins, expect cigarette volume recovery based on the belief that the year is unlikely to see any significant hike in excise duty, attractive valuations, we advise investors to BUY the stock for a further return of 15-20% from hereon.

## Godfrey Phillips India Ltd. (GPIL)

### Peer Comparison on trailing basis (last four quarters)

Rs in cr

Company name	Net Sales	EBITDA	EBITDA%	PAT	PAT%	EPS	PE
GPIL	2403.1	400.4	16.7%	192.1	8.0%	184.7	14.9
ITC	31917.7	11957.8	37.5%	8435.2	26.4%	10.7	29.9
VST	755.7	198.4	26.3%	133.0	17.6%	88.7	18.0

Source: Company and Nirmal Bang Research

### Company Description

Godfrey Phillips India (GPIL) is one of the largest players in the Indian cigarette industry and has two major stakeholders, the K. K. Modi Group and Philip Morris. The Company operates in two segments: Cigarette and tobacco products, and Tea and other retail products. The company's operations primarily span the entire northern and western part of the country with new markets like West Bengal and South of India. The company manufactures some of the most popular cigarette brands in the country like Four Square, Red & White, Cavanders, Tipper and North Pole. The company has created popular products like Stellar, India's first slim cigarette and 'i-gen' a king-size cigarette, the first in India to conform to EU norms of 10-1-10 in their kitty. Godfrey Phillips India's global mindset also drew the company towards an arrangement with Philip Morris for manufacturing and sale of the iconic brand Marlboro in India. The Company cigarettes are manufactured in state-of-the-art factories at Guldhar, Andheri & Rabale. The company enjoys 520 exclusive distributors and over 800,000 retail outlets.

GPIL also has a flourishing International Business Division through which it collaborates with some of the top players in the international tobacco industry to assist them in marketing their products and providing various professional and expert services including contract manufacturing, cut tobacco, smoke analysis and various other consultancy services. Many countries from the Middle East to West Africa, South East Africa, South East Asia, East Europe, Australia, South America, Southeast Asia and Central America have been added on to its portfolio of exporting cigarettes as well as cut tobacco.

## Godfrey Phillips India Ltd. (GPIL)

### Q3FY14 Standalone Result Analysis

Rs. in crore

Particulars	Q3FY14	Q3FY13	YoY%	Q2FY14	QoQ%	9MFY14	9MFY13	YoY%
Gross Sales	1075.2	908.4	18.4%	1006.8	6.8%	3085.8	2598.2	18.8%
Less: Excise Duty	451.9	377.1	19.8%	416.3	8.6%	1271.8	1134.9	12.1%
<b>Net Sales</b>	<b>623.4</b>	<b>531.3</b>	<b>17.3%</b>	<b>590.6</b>	<b>5.6%</b>	<b>1814.0</b>	<b>1463.3</b>	<b>24.0%</b>
Other Operating Income	17.0	10.2	67.1%	12.9	31.3%	44.8	27.4	63.7%
<b>Total Income</b>	<b>640.3</b>	<b>541.5</b>	<b>18.3%</b>	<b>603.5</b>	<b>6.1%</b>	<b>1858.8</b>	<b>1490.7</b>	<b>24.7%</b>
Increase / Decrease in Stock	-6.8	-7.4	-8.4%	2.6	-356.8%	21.0	-36.9	-156.7%
Consumption of raw material	147.3	122.9	19.9%	131.2	12.3%	392.4	347.0	13.1%
Purchase of traded goods	103.4	94.0	10.0%	109.7		342.2	257.1	
Employees Cost	55.4	49.2	12.7%	54.9	1.0%	169.5	146.0	16.1%
Advertisement	75.9	76.0	-0.1%	71.7	5.8%	220.0	224.0	-1.8%
Other Expenditure	132.1	119.7	10.4%	146.6	-9.9%	416.0	335.0	24.2%
<b>Total Expenditure</b>	<b>507.3</b>	<b>454.3</b>	<b>11.7%</b>	<b>516.8</b>	<b>-1.8%</b>	<b>1561.0</b>	<b>1272.1</b>	<b>22.7%</b>
<b>EBITDA</b>	<b>133.0</b>	<b>87.2</b>	<b>52.6%</b>	<b>86.7</b>	<b>53.4%</b>	<b>297.8</b>	<b>218.6</b>	<b>36.2%</b>
Interest	4.5	6.5	-30.9%	13.9	-67.6%	24.2	20.9	15.7%
Other Income	2.5	11.2		4.8		20.3	20.9	
PBDT	131.0	91.9	42.7%	77.6	68.9%	293.9	218.7	34.4%
Depreciation	22.7	22.9	-1.1%	21.0	8.2%	65.3	63.6	2.6%
Exceptional item	0.0	0.0		0.0		35.4	0.0	
PBT	108.4	68.9		56.6		193.2	155.0	
Tax	37.6	19.7	90.9%	18.4	104.6%	60.9	45.3	34.4%
<b>Reported Profit After Tax (PAT)</b>	<b>70.7</b>	<b>49.2</b>	<b>43.8%</b>	<b>38.3</b>	<b>84.9%</b>	<b>132.3</b>	<b>109.7</b>	<b>20.6%</b>
EPS (Unit Curr.)	68.0	47.3		36.8		127.3	105.5	
Equity	10.4	10.4		10.4		10.4	10.4	
Face Value	10	10		10		10	10	
			<b>BPS</b>		<b>BPS</b>			<b>BPS</b>
EBITDA(%)	21.3%	16.4%	490	14.7%	660	16.4%	14.9%	150
PBDT(%)	21.0%	17.3%	370	13.1%	790	16.2%	14.9%	130
PAT(%)	11.3%	9.3%	200	6.5%	480	7.3%	7.5%	-20

Source: Company and Nirmal Bang Research

## Godfrey Phillips India Ltd. (GPIL)

### Q3FY14 Standalone Segment Analysis

Rs. in crore

Particulars	Q3FY14	Q3FY13	YoY%	Q2FY14	QoQ%	9MFY14	9MFY13	YoY%
Cigarette	562.9	481.4	16.9%	526.7	6.9%	1651.5	1344.2	22.9%
Tea & other retail	77.5	60.1	29.0%	76.8	0.9%	207.3	146.5	41.5%
Gross Sales	640.3	541.5	18.3%	603.5	6.1%	1858.8	1490.7	24.7%
Segment Revenues (Profit / Loss)								
Cigarette	115.81	75.21	54.0%	83.66	38.4%	246.76	176.5	39.8%
margin	20.6%	15.6%		15.9%		14.9%	13.1%	
Tea & other retail	-8.93	-3.79		-7.21		-25.05	-9.55	162.3%
margin	-11.5%	-6.3%		-9.4%		-12.1%	-6.5%	
Total	106.88	71.42	49.6%	76.45	39.8%	221.71	166.95	32.8%
Less: Intt. Exp.	4.51	6.53		13.93		24.18	20.89	
Unallocable Exp.	5.98	4.02		-5.89		-4.3	8.95	
<b>PBT</b>	<b>108.35</b>	<b>68.91</b>	<b>57.2%</b>	<b>56.63</b>	<b>91.3%</b>	<b>193.23</b>	<b>155.01</b>	<b>24.7%</b>

Source: Company and Nirmal Bang Research

### Consolidated Balance Sheet

Rs. in crore

Particulars	FY2009	FY2010	FY2011	FY2012	FY2013
<b>SOURCES OF FUNDS :</b>					
<b>Total Share Capital</b>	<b>10.4</b>	<b>10.4</b>	<b>10.4</b>	<b>10.4</b>	<b>10.4</b>
<b>Reserves Total</b>	<b>586.3</b>	<b>671.0</b>	<b>794.9</b>	<b>925.7</b>	<b>1,047.0</b>
<b>Net Worth</b>	<b>596.7</b>	<b>681.4</b>	<b>805.3</b>	<b>936.1</b>	<b>1,057.4</b>
Minority Interest	2.9	2.6	2.3	2.0	1.9
<b>Total Loans</b>	<b>95.3</b>	<b>114.6</b>	<b>225.5</b>	<b>329.5</b>	<b>303.6</b>
Net Deferred Tax	-1.3	2.2	0.3	-6.0	5.1
<b>Total Liabilities</b>	<b>693.6</b>	<b>800.8</b>	<b>1,033.4</b>	<b>1,261.6</b>	<b>1,367.9</b>
<b>APPLICATION OF FUNDS :</b>					
<b>Net Block</b>	<b>233.3</b>	<b>286.9</b>	<b>323.7</b>	<b>566.8</b>	<b>741.4</b>
Capital Work in Progress	62.7	73.5	182.0	139.0	16.3
<b>Total Fixed Assets</b>	<b>296.0</b>	<b>360.4</b>	<b>505.7</b>	<b>705.8</b>	<b>757.7</b>
Investments	215.5	194.8	322.0	325.3	286.0
<b>Current Assets, Loans &amp; Advances</b>					
Inventories	368.6	365.4	354.0	381.7	543.4
Sundry Debtors	30.4	49.3	45.4	75.0	79.3
Cash and Bank	18.9	36.3	54.0	24.2	24.5
Loans and Advances	77.7	80.6	56.7	95.6	77.7
Others	0.0	0.0	47.1	48.6	48.1
<b>Total Current Assets</b>	<b>495.6</b>	<b>531.5</b>	<b>557.2</b>	<b>625.0</b>	<b>772.9</b>
<b>Total Current Liabilities &amp; Provisions</b>	<b>313.6</b>	<b>286.0</b>	<b>351.5</b>	<b>394.4</b>	<b>448.7</b>
<b>Net Current Assets</b>	<b>182.0</b>	<b>245.6</b>	<b>205.7</b>	<b>230.6</b>	<b>324.2</b>
Miscellaneous Expenses not written off	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>693.6</b>	<b>800.8</b>	<b>1,033.4</b>	<b>1,261.6</b>	<b>1,367.9</b>

Source: Company and Nirmal Bang Research

## Godfrey Phillips India Ltd. (GPIL)

### Consolidated Income Statement Analysis

Rs. in crore

Particulars	FY2009	FY2010	FY2011	FY2012	FY2013
<b>Net Sales</b>	<b>1,132.1</b>	<b>1,383.9</b>	<b>1,628.4</b>	<b>1,910.5</b>	<b>2,097.6</b>
<b>Total Expenditure</b>	<b>981.6</b>	<b>1,231.2</b>	<b>1,352.7</b>	<b>1,584.3</b>	<b>1,770.7</b>
<b>EBITDA</b>	<b>150.5</b>	<b>152.7</b>	<b>275.7</b>	<b>326.2</b>	<b>327.0</b>
<b>EBITDA Margin</b>	<b>13.3%</b>	<b>11.0%</b>	<b>16.9%</b>	<b>17.1%</b>	<b>15.6%</b>
Depreciation & Amortization	31.1	37.6	43.9	66.9	92.6
Other Income	52.2	61.7	23.2	29.7	29.4
<b>PBIT</b>	<b>171.7</b>	<b>176.8</b>	<b>255.0</b>	<b>289.0</b>	<b>263.8</b>
Interest	5.9	6.9	13.6	31.7	26.9
<b>PBT</b>	<b>165.9</b>	<b>169.9</b>	<b>241.4</b>	<b>257.3</b>	<b>236.9</b>
Total Tax	57.6	50.2	75.5	76.3	67.4
<b>PAT</b>	<b>108.2</b>	<b>119.7</b>	<b>165.9</b>	<b>181.1</b>	<b>169.4</b>
<b>PAT Margin</b>	<b>9.6%</b>	<b>8.7%</b>	<b>10.2%</b>	<b>9.5%</b>	<b>8.1%</b>
Minority items	-0.3	-0.3	-0.3	-0.3	-0.2
Profit/loss of associate cos	0.0	-5.0	0.0	0.2	0.4
<b>Adj PAT</b>	<b>108.6</b>	<b>115.1</b>	<b>166.1</b>	<b>181.5</b>	<b>170.0</b>
<b>Adj PAT Margin</b>	<b>9.6%</b>	<b>8.3%</b>	<b>10.2%</b>	<b>9.5%</b>	<b>8.1%</b>
Equity Capital	10.4	10.4	10.4	10.4	10.4
<b>EPS</b>	<b>104.4</b>	<b>110.6</b>	<b>159.7</b>	<b>174.5</b>	<b>163.5</b>

Source: Company and Nirmal Bang Research

### Key metrics

Operational Ratio	FY2009	FY2010	FY2011	FY2012	FY2013
EBITDA margin (%)	13.3%	11.0%	16.9%	17.1%	15.6%
APAT margin (%)	9.6%	8.3%	10.2%	9.5%	8.1%
APAT Growth (%)	21.6%	6.0%	44.4%	9.3%	-6.3%
Price Earnings (x)	26.4	24.9	17.3	15.8	16.9
Book Value (Rs.)	573.7	655.2	774.3	900.1	1016.8
ROCE (%)	18.1%	17.6%	20.6%	19.3%	16.0%
RONW (%)	34.2%	18.7%	22.3%	20.8%	17.0%
Debt Equity Ratio	0.2	0.2	0.3	0.4	0.3
Price / Book Value (x)	4.8	4.2	3.6	3.1	2.7
EV / Sales	1.3	1.1	1.0	0.9	0.9
EV / EBITDA	19.6	19.3	11.0	9.7	9.6

Source: Company and Nirmal Bang Research

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