CRISIL
Ratings

Rating Rationale

August 25, 2023 | Mumbai

Godfrey Phillips India Limited

Ratings Reaffirmed

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Rating Action

Total Bank Loan Facilities Rated	**Rs.167 Crore**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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Rs.100 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper of Godfrey Phillips India Limited (GPIL).
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Operating income grew by around 33% in fiscal 2023, driven by recovery in demand post pandemic and steady taxation. Operating profitability remained healthy at 23.1% in fiscal 2023 as against 23.7% in the previous year. Revenue is likely to grow by 10% over the medium term while the operating margin remains steady at 23-24%. Financial risk profile is expected to remain strong due to nil repayment obligation, healthy debt protection metrics and superior liquidity; cash surplus was over Rs 2,200 crore as on March 31, 2023.
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The ratings continue to reflect healthy market position of GPIL in the Indian cigarette industry and strong financial risk profile. These strengths are partially offset by exposure to risks related to geographical concentration in revenue, intense competition, and unfavourable regulatory changes.

Analytical Approach

CRISIL Ratings has considered the standalone financial and business risk profiles of GPIL because operations of wholly-owned subsidiaries - International Tobacco Company Ltd, Godfrey Phillips Middle East DMCC (Under closure) and investment companies - do not have any material bearing on its financials.

Key Rating Drivers & Detailed Description

Strengths:

Healthy market position

GPIL has been in the cigarette business in India for over eight decades. Its portfolio comprises established cigarette brands such as Four Square, Red & White, Stellar, and Cavenders; the company also manufactures and distributes the Marlboro brand of cigarettes, which enjoy strong customer loyalty. The strong distribution network helps promote other products such as chewing products and confectionery.
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Strong financial risk profile

Financial risk profile should remain supported by the absence of any repayment obligation over the medium term. Gearing was low at 0.01 time as on March 31, 2023. Debt protection metrics were robust, with interest coverage ratio more than 240 times and net cash accrual to total debt ratio of 17 times for fiscal 2023. Liquidity has been superior, with surplus of over Rs 2,200 crore as on March 31, 2023.
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Weaknesses:

Exposure to geographical concentration in revenue and intense competition

Operations are concentrated in northern and western India, which contribute to more than 90% of its cigarette sales. Further, GPIL is a distant second in the Indian tobacco industry, accounting for around 13% of volume share, and faces intense competition from the dominant player -- ITC Ltd (â€˜CRISIL AAA/Stable/CRISIL A1+â€™).
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Susceptibility to regulatory changes

The cigarette industry continues to be highly vulnerable to changes in government policies and regulations. On one hand, the industry faces a high tax structure, while on the other, there are limitations on promotion, consumption, and packaging of cigarettes, constraining growth.

Liquidity: Superior

In the absence of any repayment obligation, the entire cash accrual -- projected at Rs 500-600 crore per annum for fiscals 2024 and 2025 â€“ will be used to meet the capital expenditure (capex) and working capital requirements. Cash and cash equivalents were strong at over Rs 2,200 crore as on March 31, 2023. Utilisation of the fund-based bank limit was negligible during the 12 months through July 2023.
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ESG profile

The environment,Â socialÂ andÂ governance (ESG) profileÂ ofÂ GPILÂ supports itsÂ already strong credit riskÂ profile.
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The tobacco sectorÂ has a high environmental impactÂ because ofÂ its raw material sourcingÂ strategies and waste-intensive processes. It also has a high social impactÂ owingÂ toÂ health hazardsÂ associated withÂ theÂ use ofÂ tobacco,Â includingÂ smoking addictionÂ andÂ underage consumption,Â asÂ well as riskÂ of government interventionÂ by way ofÂ restriction on sales, regulation of marketing practices and higher tax.
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Key ESG highlights

- GPIL aims for 30% reduction in the emission of greenhouse gases per unit of production in manufacturing operations by 2030
- The company intends to procure 50% of its total energy from renewable sources by 2030
- GPIL wants to ensure 100% of its contracted burley tobacco farmers have access to clean drinking water in close vicinity by 2030
- ItsÂ governance structure is characterisedÂ by more than 60%Â ofÂ theÂ board comprisingÂ independent directors and extensive disclosures.

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There is growing importance of ESG among investors and lenders. Continuous commitment of GPIL toÂ embed sustainability principles across the organisationÂ and its value chain willÂ partly offsetÂ theÂ inherentÂ impact ofÂ theÂ tobacco sectorÂ onÂ environmentÂ and social aspects.

Outlook: Stable

GPIL will continue to benefit from its healthy market position and strong financial risk profile.

Rating Sensitivity Factors

Upward Factors

- Substantial and sustained increase in market share to over 25%
- Significant and sustained improvement in the operating margin

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Downward Factors

- Weakening of operating performance with operating margin falling below 10%
- Substantial decline in market share to less than 8%
- Large, debt-funded capex or acquisition
- Any adverse regulatory change in the cigarette industry
- Considerable decline in cash and liquid investments

About the Company

GPIL is an associate of the KK Modi group of companies and Philip Morris Global Brands Inc (Philip Morris; a subsidiary of Altria Group Inc [rated â€˜BBB/Stable/A-2â€™ by S&P Global Ratings]). The KK Modi group ownsÂ Â Â 47.48% equity shares of the company, and Philip Morris owns 25.1%. GPIL primarily manufactures cigarettes. It has diversified into segments such as mouth fresheners, and retail. It has retail stores, named 24SEVEN (TFS), in the National Capital Region, Hyderabad and Chandigarh.

Key Financial Indicators

As on/for the period ended March 31	Units	2023	2022
Operating income	Rs crore	3564	2677
Profit after tax (PAT)	Rs crore	608	432
PAT margin	%	17.1	16.1
Adjusted debt/adjusted networth	Times	0.01	0.01
Interest coverage	Times	243.0	76.8

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Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 days	100.00	NA	CRISIL A1+
NA	Cash Credit*	NA	NA	NA	29.00	NA	CRISIL AA+/Stable
NA	Cash Credit$	NA	NA	NA	10.00	NA	CRISIL AA+/Stable
NA	Cash Credit#	NA	NA	NA	31.00	NA	CRISIL AA+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	77.00	NA	CRISIL AA+/Stable
NA	Letter of credit & Bank Guarantee%	NA	NA	NA	3.00	NA	CRISIL A1+
NA	Bank guarantee%@	NA	NA	NA	17.00	NA	CRISIL AA+/Stable

**Fund-based facility; interchangeable with other fund-based facilities*
$Interchangeable with other fund-based/non-fund-based facilities
#Fund-based facility; interchangeable with other fund-based and one way interchangeable with non-fund-based facilities
%Interchangeable with other non-fund-based facilities
@Interchangeable with letter of credit

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
											CRISIL	CRISIL

Fund Based Facilities	LT	147.0	CRISIL AA+/Stable	Â	--	30-08-22	CRISIL AA+/Stable	20-09-21	CRISIL AA+/Stable	24-09-20	AA+/Stable / CRISIL A1+	AA+/Stable / CRISIL A1+
Non-Fund Based Facilities	LT/ST	20.0	CRISIL AA+/Stable / CRISIL A1+	Â	--	30-08-22	CRISIL AA+/Stable / CRISIL A1+	20-09-21	CRISIL AA+/Stable / CRISIL A1+	24-09-20	CRISIL AA+/Stable / CRISIL A1+	CRISIL AA+/Stable / CRISIL A1+
Commercial Paper	ST	100.0	CRISIL A1+	Â	--	30-08-22	CRISIL A1+	20-09-21	CRISIL A1+	24-09-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Bank Guarantee%@	**7**	**CRISIL AA+/Stable**
Bank Guarantee%@	**10**	**CRISIL AA+/Stable**
Cash Credit$	**10**	**CRISIL AA+/Stable**
Cash Credit*	**10**	**CRISIL AA+/Stable**
Cash Credit*	**19**	**CRISIL AA+/Stable**
Cash Credit#	**31**	**CRISIL AA+/Stable**
Letter of credit & Bank Guarantee%	**3**	**CRISIL A1+**
Proposed Long Term Bank Loan Facility	**77**	**CRISIL AA+/Stable**

**Fund-based facility; interchangeable with other fund-based facilities*
$Interchangeable with other fund-based/non-fund-based facilities
#Fund-based facility; interchangeable with other fund-based and one way interchangeable with non-fund-based facilities
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Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Fast Moving Consumer Goods Industry
CRISILs Criteria for rating short term debt

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