



MANAGEMENT DISCUSSION AND ANALYSIS REPORT



MANAGEMENT DISCUSSION AND ANALYSIS REPORT OF GODREJ AGROVET LIMITED FOR THE FINANCIAL YEAR (F.Y.) 2017-18

A. CAUTIONARY STATEMENT:

The statements in the “Management Discussion and Analysis Report” describe your Company’s objectives, projections, expectations, estimates or forecasts which may be “forward-looking statements” within the meaning of the applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied herein due to risks and uncertainties. Important factors that could influence the Company’s operations, *inter alia*, include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic, political developments within the country and other factors such as litigations and industrial relations.

B. INDIAN ECONOMY & AGRICULTURE OVERVIEW:

According to Central Statistics Office for 2017-18, Indian economy grew at 6.7% in the Financial Year 2017-18. The growth is further expected to accelerate to around 7%-7.5% percent next financial year, thereby re-instating India’s position as the world’s fastest growing economy. In 2017-18, the first half of the year was impacted by teething issues such as lingering effects of demonetization, difficulties in implementation of Goods and Service Tax (GST), high and rising real interest rates and falling food prices affecting agriculture income. However, in the second half of the year the economy witnessed robust signs of revival. Economic growth improved

as the shocks began to fade, corrective actions were taken, and the global economic recovery boosted exports. Sovereign ratings upgrade and jump in World Bank’s Ease of Doing Business rankings are endorsements of Government reforms and policies. In 2018-19 also, growth is expected to be driven by increase in exports due to acceleration in global growth, expected rebound in private investments and increase in consumption demand. However, persistent high oil prices (at current levels) remain a key risk, which would adversely affect inflation, the current account, the fiscal position and growth. This will force macroeconomic policies to be tighter.

At the sectoral level, agriculture and allied activities are estimated to have registered a moderate growth rate of 3.4% for the last fiscal. This was mainly due to the high base effect of Financial Year 2016-17 which saw a very high growth rate as it followed two years of drought. In terms of monsoon, Financial Year 2017-18 experienced an overall ‘normal’ monsoon at 95% of long period average (LPA - measured for the trailing 10 year period). Also, crop production remained robust for the year with an expected record food-grain production of 279.51 million tonnes i.e. 4.4 million tonnes higher than the previous record production of 275.11 million tonnes. However, decline in commodity prices adversely impacted companies in the sector.

The Indian Meteorological Department in its first monsoon forecast for the season has predicted a ‘normal’ monsoon for the upcoming Financial

Year 2018-19, brightening the chances of an accelerated growth for the sector. Good monsoons help to improve the poor sentiment prevailing in the rural economy and the sector expects bumper Kharif and Rabi crops. Further, agriculture and allied sector has also received a lot of impetus in the Union Budget. Adequate remuneration, sustainability and resilience were the underlying concerns addressed through the Union Budget announcements and allocations. Recent endeavor of the Government to formulate a separate exports policy for agriculture is also a step in the right direction to achieve the dream of doubling farmer incomes. However, climate change and high dependence on monsoon for sector growth continue to be the key risks.

C. OVERVIEW OF THE KEY BUSINESS SEGMENTS:

Your Company is a diversified, research and development focused agri-business Company with operations across five business verticals: animal feed, crop protection, oil palm, dairy, and poultry and processed foods. Your Company focuses on improving productivity of farmers by innovating products and services that sustainably increase crop and livestock yields. Your Company has made significant investments to enhance R&D capabilities over the years and believe that emphasis on R&D has been critical to the Company's success. Detailed information on five key business segments is as below:

Animal Feed Business

Your Company is one of the largest organized players in the compound animal feed market in India. The product portfolio comprises of cattle feed, poultry feed (broiler and layer), aqua feed (fish and shrimp) and specialty feed. These products are manufactured at 31 state-of-the-art manufacturing

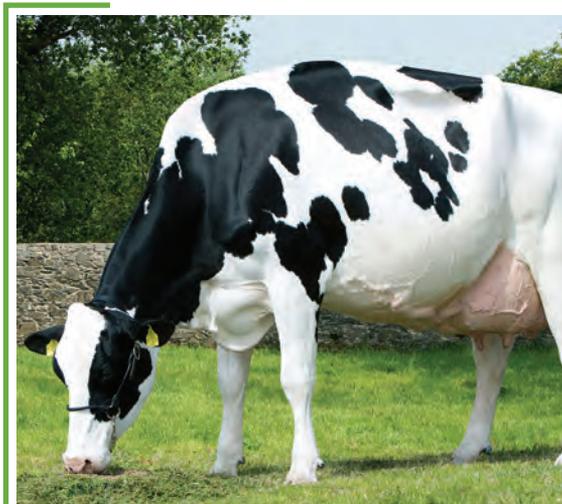
plants, equipped with quality assurance labs which help farmers improve their livestock productivity and profitability. Also, through the network of more than 4200 distributors, the Company serves customers in 31 states and union territories of the country, covering more than 550 districts.

Your Company also has a 50:50 joint venture with Advanced Chemical Industries Limited (ACI), Bangladesh named ACI Godrej Agrovet Private Limited (ACI Godrej). This joint venture was incorporated in 2004 and produces cattle, poultry and fish feed in Bangladesh. ACI Godrej operates two manufacturing facilities with an aggregate production capacity of 0.57 million MT per annum. Over the last decade, it has become a leading player in the animal feed market in Bangladesh and ranks among the top 4 players across all categories of animal feed.

India is one of the largest global producer of animal feed with an annual compound feed production between 25-27 million MT. Of this, poultry feed constitutes nearly two-thirds of the total annual production, followed by cattle feed which forms 21% and aqua feed forms the remaining 12% of the annual feed production. While compound poultry feed industry is highly organized with 80%-85% of the compound feed being supplied by the organized sector, cattle feed is highly unorganized with organized sector contributing to only around 12% of the feed requirement. Going forward, the demand for compound animal feed is expected to be driver by growing awareness among farmers on the benefits of the compound feed leading to shift from the unorganized sector to the organized sector. However, the animal feed industry in India is highly localized and our Company competes with multiple players in each geography. Further, fluctuations in the raw material prices also impact volumes in key product categories.

The strategy for our animal feed business is to focus on achieving cost leadership by improving the operational efficiency through R&D initiatives. Our R&D efforts are also focused on developing innovative livestock nutrition products that give us the product differentiation, which we believe will help us in improving our profit margins and market share. For the financial year 2017-18, on a consolidated basis, the animal feed business

segment registered a volume growth of around 7.4% driven by pick up in the cattle feed and layer feed segments. But commodity prices were low which led to marginal decline in revenues and profitability levels for the year. In future, we believe that the Company's focus on cost leadership and product innovation should help our growth objectives.





Crop Protection Business

Your Company manufactures a wide range of products including plant growth regulators, organic manures, generic agrochemicals and specialized herbicides. Currently, the distribution network of crop protection business includes approximately 6,000 distributors on a pan-India basis. In October 2015, Godrej Agrovet acquired a majority equity interest in Astec LifeSciences Limited (Astec LifeSciences), which manufactures agrochemical active ingredients (technical), bulk and formulations, intermediate products. The company sells its products in India as well as exports them to approximately 24 countries, including the United States of America and countries across Europe, West Asia, South East Asia and Latin America. Astec LifeSciences also undertakes contract development and manufacturing services for other agro chemical companies. Currently, Godrej Agrovet owns 57.45% of the outstanding equity shares of Astec LifeSciences.

Over the last five years the Indian crop protection market, comprising domestic consumption and exports, is estimated to have grown at a compound annual growth rate of around 10%. The domestic crop protection demand is mainly

driven by higher pesticide use per hectare to boost agricultural production and an increased penetration of pesticides. Export demand is driven by high demand from US and Brazil. Over the next three years also, the crop protection demand is expected to grow a healthy rate of around 8%- 9% mainly driven by an increase in penetration and a rise in per-hectare expenditure. India has one of the lowest application rates on per-hectare consumption basis. Farmers are also likely to increase the intensity of application to achieve better crop yields and pare losses.

Your Company, along with Astec LifeSciences, has been continuously increasing the product portfolio and will continue to focus on introducing new products. R&D initiatives have increasingly focused on off-patented chemistry synthesis, which can help in expanding product portfolio. The focus is also on increasing the market share of our existing core products by developing products for additional crops and increasing our geographic presence. For example, we intend to achieve deeper market penetration with our niche plant growth regulators ('Vipul', 'Double', 'Combine', 'Bountee' and 'Zymegold') and extend our target crop segment through our products like cotton

herbicide ('Hitweed') which we believe bring innovation over existing substitutes.

For the current year also, the segment witnessed good traction in new product launches. Performance in the crop protection business was strong with revenues and segmental profits showing good growth in current fiscal. We believe, that in future also, the performance will continue to remain strong driven by secular industry demand and our focus on continuously increasing our bouquets of products.

Vegetable Oil Business

Your Company is engaged in producing a range of palm plantation products including crude palm oil, crude palm kernel oil and palm kernel cake. Your Company purchases Fresh Fruit Bunches (FFBs) from palm oil farmers and works closely with them by providing planting material, agricultural inputs

and technical guidance. The Government of India regulates the oil palm business in India and the Company participates in the Oil Palm Development Programme (OPDP) for accessing the FFB produce from farmers in areas designated. The Company has entered into memoranda of understanding with state governments, which provides access to approximately 64,125 hectares under oil palm plantation to the Company.

India occupies a prominent place in the global oilseeds scenario as it forms 9%-10% share of the total edible oil consumption and around 13.6% share of the global vegetable oil imports. India currently imports approximately 70% of total vegetable oil requirement and palm oil forms a significant share in overall edible oil imports. Overall, potential area identified for cultivation of irrigated oil palm in the country is high at around 2.0 million hectare, area brought under oil palm



plantation in India has been around only 3,00,000 hectare. Hence, there is huge potential for this industry to grow. Currently, Your Company is the the largest crude palm oil and crude palm kernel oil producer in India with around 35% market share. Your Company's oil palm operations are spread across Andhra Pradesh, Tamil Nadu, Gujarat, Goa, Odisha, Telangana, Mizoram and Chhattisgarh.

In the current year, your Company has received allotment of 4 (four) mandals in Chittoor district of Andhra Pradesh. This will help enhance the area under oil palm plantation. Our strategy for oil palm business is to grow our presence in certain regions, create additional revenue streams from oil palm biomass and continue to focus on R&D to improve FFB yield. Your Company will opportunistically evaluate tenders issued under the OPDP and apply for additional areas to increase the area under oil palm cultivation that is accessible to the Company. The Company intends to diversify its oil palm business and create additional revenue streams and lower operational costs, including through the use of oil palm biomass in our animal feed business, which we believe will reduce our dependence on the prices of crude palm oil and crude palm kernel oil. Your Company has an exclusive R&D facility at Chintampalli, Andhra Pradesh and continues to focus on R&D to improve FFB yields.

Dairy Business

In the dairy business, your Company operates through its subsidiary, Creamline Dairy Products Limited, where it sells a majority of milk and milk based products under the 'Jersey' brand across the states of Telangana, Andhra Pradesh, Tamil

Nadu, Karnataka and Maharashtra (Nagpur region). In this business, our dairy distribution network included approximately 4,000 milk distributors, approximately 3,000 milk product distributors and around 50 retail parlours, as well as direct sales to institutional customers.

India is the world's biggest producer and consumer of milk on a country-wise basis. However, the per capita consumption of milk at 97 litres per year is well below that of other major milk markets, except for China. As regards to latest seasonal estimation, the total milk production has increased to 167 million tonnes during 2017-18 from around 150 million tonnes during 2016-17. Going forward, the growth in the industry will continue to be driven by rising middle class and urban population, changing dietary patterns towards protein based foods and increasing population. However, the industry is highly fragmented organised sector forming only 15%-20% of overall market, that also in specific regions. In the organised sector, private players which plan to develop pan India distribution network and presence are expected to benefit in long-run.

Our growth strategy for dairy business will be to increase our market share in southern states of India, increase the salience of value-added product portfolio, automate a majority of our operations and increase our procurement base. Your Company also seek to strengthen existing relationships with milk farmers and vendors through methods including providing farmers with cattle feed, assisting with veterinary health-care and vaccinations.



Poultry & Processed Foods Business

Your Company, through its Associate Company, Godrej Tyson Foods Limited (Godrej Tyson) manufactures and markets processed poultry and vegetarian products through its brands 'Real Good Chicken' and 'Yummiez'. In 1994, your Company ventured into the poultry business by launching the 'Real Good Chicken' brand. In 2008, with an objective to grow its poultry and processed foods business, it entered into a joint venture with Tyson India Holdings Limited, a subsidiary of Tyson Foods Inc., U.S.A. We believe that this joint venture with Tyson India Holdings Limited provides the technical and operational expertise to compete successfully in India. Tyson Foods Inc., U.S.A. has approximately 75 years of experience producing, distributing and marketing poultry and other animal protein related products.

In India, overall poultry meat consumption has been increasing at a healthy pace over the last decade and is expected to remain high in near future. This growth has been led primarily by an increase in average household incomes, increase

in popularity and number of fast food restaurants and quick service restaurants (QSR), as well as a shift in preference of white meat over red meat. The key markets are concentrated in Tamil Nadu, Andhra Pradesh, Maharashtra, Karnataka, and West Bengal.

In the current year, your Company's focus has been to increase the distribution network across product categories. Your Company's strategy will continue to introduce new products and increase the product reach. The customer base is diverse comprising retail customers, QSR, fine dining restaurants, food service companies and hotels. We intend to continue to provide variants of existing, and new, value-added poultry products. We believe that value-added products will continue to be one of the fastest growing and most profitable segments of the processed foods industry in India. We believe the QSR market has been growing rapidly and provides a market for processed and value-added ready-to-eat and ready-to-cook products. Modern retail stores, which include super markets and hyper markets, are expected to increase demand for hygienically processed food products.



D. COMPANY'S FINANCIAL AND OPERATIONAL PERFORMANCE:

Standalone Performance:

For the Financial Year 2017-18, your Company reported standalone total income of ₹ 371,935.39 Lakh compare to ₹ 3,67,024.03 Lakh in the previous Financial Year. Profit before Exceptional Items and Tax rose to ₹ 28,132.50 Lakh, registering a year-on-year growth of around 8%.

The key highlights of the Standalone Financials for the Financial Year ended March 31, 2018 are as under:

Particulars	Amount (₹ in Lakh)
Total Income	3,71,935.39
Earnings Before Interest, Tax, Depreciation and Amortization	36,650.81
Profit / (Loss) After Tax for the Year	19,086.58
Total Comprehensive Income for the Year	18,664.79

Consolidated Performance:

For the Financial Year 2017-18, your Company reported consolidated total income of ₹ 5,23,772.60 Lakh compared to ₹ 4,98,540.14 Lakh in the previous Financial Year. Profit before exceptional items and tax rose by ₹ 35,969.28 Lakh in Financial Year 2017-18 from ₹ 35,456.27 Lakh in the previous Financial Year.

The key highlights of the Consolidated Financials for the Financial Year ended March 31, 2018 are as under:

Particulars	Amount (₹ in Lakh)
Total Income	5,23,772.60
Earnings Before Interest, Tax, Depreciation and Amortization	47,485.07
Profit / (Loss) After Tax for the Year	25,103.80
Total Comprehensive Income for the Year	24,424.55

E. OPPORTUNITIES, STRENGTHS THREATS, RISKS & CONCERNS:

(i) Opportunities and Strengths:

- Increase market share by leveraging presence in existing business verticals:** Your Company will continue to focus on improving the market share across all business verticals. Since several sectors in which your Company operates are largely unorganized, cost leadership will be a key enabler for your Company to increase the market share of products. Your Company's ability to increase sales will be strengthened by continued focus on offering a wide range of innovative products across all business verticals which will help in gaining market share.
- Focus on inorganically growing business offerings:** Your Company will evaluate inorganic growth opportunities, in keeping with the strategy to grow and develop market share or to add new product categories. Your Company may consider opportunities for inorganic growth, such as through mergers and acquisitions, if, among other things, they consolidate our market position in existing

business verticals or achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits. Your Company can also look at opportunities which strengthen and expand product portfolio and increase sales and distribution network.

- **Pan-India presence with extensive supply and distribution network to benefit the Company in long-run:** Your Company has a pan-India presence and operations spanning across 5 (five) business verticals. Your Company has set up processing facilities and supporting infrastructure as well as R&D to develop a modern operating platform across key agriculture verticals. As a result of widespread network and significant operational experience, your Company is well placed to identify key market trends and introduce a range of innovative and value added products in the market to cater to the evolving needs of our customers. Our nationwide footprint also allows your Company to leverage the competitive advantages of each location to enhance our competitiveness and reduce geographic and political risks in businesses.
- **Diversified businesses with synergies in operations:** Segmental and geographical diversification across business verticals provides a hedge against the risks associated with any particular industry segment or geography while benefiting from the synergies of operating in diverse but related businesses. Our synergies across diverse businesses provide ability to drive growth, optimize capital efficiency and maintain our competitive advantage. Your Company also derives operational efficiencies by centralizing and sharing certain key functions across our businesses such as finance, legal, information

technology, strategy, procurement and human resources.

- **Strong Research & Development (R&D) Capabilities:** Your Company's emphasis on R&D has been critical to its success and a differentiating factor from competitors. Dedicated R&D is undertaken in existing products primarily with a focus to improve yields and process efficiencies. Your Company also focuses on R&D efforts in areas where there is significant growth potential. Acquisition of Astec LifeSciences Limited provided us access to strong R&D capabilities in the agrochemical active ingredients category. The Company has leveraged the same to introduce new fungicide products such as 'Kemplar' and 'Casper'. Investment is also being made in developing innovative technologies to further grow our product portfolio across businesses.

(ii) Threats, Risks & Concerns:

The Indian agriculture industry faces a few risks that can temporarily impact the business. Few key risks which can impact our businesses are:

- **Unfavorable local and global weather patterns may have an adverse effect on our business, results of operations:** As an agri-based company, our businesses are sensitive to weather conditions, including extremes such as drought and natural disasters. The availability of raw materials that are required for operations and the demand for products may be adversely affected by longer than usual periods of heavy rainfall in certain regions or a drought. Occurrence of any unfavorable weather patterns may adversely affect business, results of operations and financial condition.

- **Availability of raw materials and arrangements with suppliers for raw materials:** Each of the businesses depend on the availability of reasonably priced, high quality raw materials in the quantities required by operations. The price and availability of such raw materials depend on several factors beyond your Company's control, including overall economic conditions, production levels, market demand and competition for such materials, production and transportation cost, duties and taxes and trade restrictions. It typically sources raw materials from third-party suppliers or the open market which exposes to volatility in the prices of raw materials and dependence on third-party for delivery of raw material. Also, any inability to procure raw materials from alternate suppliers in a timely fashion, or on commercially acceptable terms, may adversely affect operations.
- **Improper handling, processing or storage of raw materials or products:** The products that your Company manufactures or processes are subject to risks such as contamination, adulteration and product tampering during their manufacture, transport or storage. Inherent business risks exists in form of product liability or recall claims in the event that products fail to meet the required quality standards or are alleged to result in harm to customers. Such risks may be controlled, but not eliminated, by adherence to good manufacturing practices and finished product testing. Although your Company has product liability insurance cover for our domestic and international markets for certain of our businesses, it cannot assure that this insurance coverage is adequate or that any losses will be adequately compensated by our insurers in the event of a product liability claim.
- **Seasonal variations in our businesses:** Certain of your Company's businesses are subject to seasonal variations that could result in fluctuations in our results of operations. For example, in animal feed business, your Company sells lower volumes of cattle feed during the monsoons due to the availability of green fodder. In our poultry and processed foods business, the demand for poultry products is higher in the second half of financial year since the consumption of poultry meat and eggs are higher during winter months, while the sale of such products is lower during certain religious festivals. As a result of such seasonal fluctuations, sales and results of operations may vary by fiscal quarter, and the sales and results of operations of any given fiscal quarter may not be relied upon as indicators of the sales or results of operations of other fiscal quarters or of future performance.

In additions, financial performance is also impacted by other risks such as inability to manage our diversified operations, dependency of our revenue from our animal feed business, and dependency of utilisation of services of third parties for our operations.

F. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Your Company remains committed to improve the effectiveness of internal control systems for business processes with regard to its operations, financial reporting and compliance with applicable laws and regulations. Your Company has a proper system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that all transactions are authorized, recorded and reported correctly.

G. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED:

Our work force is a critical factor in maintaining quality and safety, which strengthens our competitive position and our human resource policies focus on training and retaining our employees. The Company trains employees on a regular basis to increase the level of operational excellence, improve productivity and maintain compliance standards on quality and safety. Employees are offered performance-linked incentives and benefits and conduct employee engagement programs from time to time. Your

Company also hires contract labor at few facilities, from time to time. Our employees at certain facilities have formed registered unions. However, the Company believes it has good relations with our employees. As on March 31, 2018, the total number of permanent employees was 2598.

Further, your Company would like to sincerely appreciate the valuable contribution and support of employees towards the performance and growth of the Company. The management team comprises of professionals with proven track record. Your Company continues to remain focused and sensitive to the role of human resources in optimizing results in all its areas of working and its industrial relations also continue to be cordial.

GAVL has delivered strong performance over the years

Revenues from Operations (₹ Lakh)



Earnings before Interest, Depreciation and Tax (₹ Lakh)



Profit before Exceptional Items and Tax (₹ Lakh)



Total Equity (₹ Lakh)

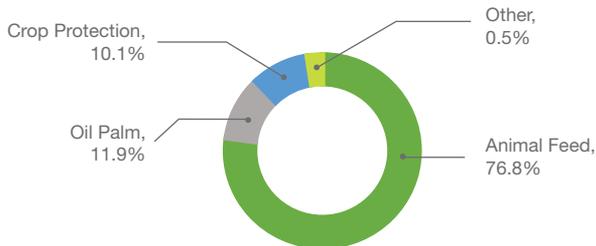


Net Debt to Total Equity (times)



GAVL has diversified the product portfolio

Segmental Revenue Mix FY2015



Segmental Revenue Mix FY2018

