MANAGEMENT DISCUSSION AND ANALYSIS REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT OF GODREJ AGROVET LIMITED
FOR THE FINANCIAL YEAR (F.Y.) 2018-19

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 therein 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:

Indian Gross Domestic Product (GDP) is expected to have grown at 6.8% for the Financial Year 2018-19 as compared to a growth rate of 7.2% in the previous Financial Year, as per the recent estimates from Central Statistical Organization (CSO). Despite a lower growth rate vis-à-vis previous year, India remains one of the fastest growing economies in the world. Growth was supported by sectors such as construction, financial services, real-estate and utility services. However, agriculture and mining grew at a much lower rate. Further, inflation remained within desirable limits and there was an uptick in the credit demand during the year. However, higher oil prices, currency depreciation in second half of the year led to increase in interest rates and higher-than-estimated current account deficit for the Finacial Year 2018-19.

India’s GDP is forecasted to grow at healthy rate of 7.3% by International Monetary Fund for the next Financial Year 2019-20 driven by an increase in the private consumption and investments, as benefits of the recent policy reforms begin to materialize and credit rebounds. Also, strong domestic demand may widen the current account deficit and inflation is projected to rise marginally mainly owing to higher energy and food prices, but is expected to remain in the Reserve Bank of India (RBI) desirable limits. Further, continuation of the Government at the center will boost fund flows in the Indian markets. However, global slowdown coupled with any sharp increase in crude prices poses a risk to the domestic growth.

Agriculture Sector Overview

Financial Year 2018-19 was a tough year for the agriculture sector. Overall monsoon was lower than normal, being 9% lower the than long period average rainfall (LPA – measured for the trailing 10 year period). Rainfall distribution was erratic and patchy and more than one-third of the districts of the country reported deficient rainfall and states of Gujarat, Maharashtra, West Bengal, Jharkhand, were severely hit. Further, as per the latest estimates, agriculture and allied activities are estimated to have grown at lower rate of 2.9% in the Financial Year 2018-19 compared to growth of 5% in the previous Financial Year. In terms of food grain production, for the Financial Year 2018-19 total production was estimated at 283.37 million tonnes which is lower than the previous year production of 285.01 million tonnes.

For the Financial Year 2019-20, the Indian Meteorological Department (IMD), in its recent monsoon forecast for the season, has predicted a normal monsoon with rainfall expected to be at 96% of the LPA (with a model error of +/- 4%). IMD expects country to have well-distributed rainfall and highlights that 'El Nino' conditions will remain weak during the monsoon in the current year. Chances of a good monsoon is positive for the agriculture sector as major portion of the country's crop production is dependent on monsoon.

Government has announced multiple measures in the interim budget with a purpose of boosting farmer's income. Interim Budget aimed at bringing stability to farm income and provide relief to small farmers. Under major agriculture and rural schemes, an amount of around ₹ 1.2 trillion has been allocated and an additional ₹1.6 trillion has been allocated for agriculture and animal husbandry sector. Increase in allocation over last year is mainly due to the large allocation made for income support scheme. These schemes and measures if implemented well, can bring lot of benefits to farmers and agriculture economy in the long run.

C. KEY BUSINESS SEGMENTS:

Your Company is a diversified, Research and Development (R&D) 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. Detailed information on the current performance and future strategy of five key business segments is as below:

Animal Feed Business

In the Animal Feed Business, your Company continues to focus on its strategy of increasing its market share across feed categories. In the Financial Year 2018-19, your Company achieved overall volume growth of around 14.2% year-on-year largely driven by layer feed. After arresting broiler feed volume de-growth last year, your Company was successful in growing double digit in the current year. This helped your Company increase penetration in its key markets and also expand presence in newer territories. However, cattle feed segment showed modest growth and aqua feed volumes declined due to challenges being faced by the shrimp feed industry.

Volume growth along with price increase, especially in the second half of the year, led to segment revenue growth of 18.3% year-on-year in Financial Year 2018-19. However, segment margins were adversely impacted by sharp increase in prices of key raw materials such as maize, soybean, rice bran extraction, fish meal etc. Despite taking price hikes, the entire increase in raw material prices could not be passed on to the farmer which lowered the segment margins during the Finacial Year 2018-19 as compared to the previous Finacial Year. However, your Company focused on optimizing capital employed and significantly improved returns on capital employed in the segment. Performance of your Company's 50:50 Joint Venture with Advanced Chemical Industries Limited (ACI), Bangladesh named ACI Godrej Agrovet Private Limited was also adversely impacted by lower demand for feed and higher raw material prices in Bangladesh.

Going forward, your Company will continue to focus on its strategy of increasing the market share across product categories and of achieving cost leadership by improving the operational efficiency through R&D initiatives. The continuous emphasis on developing innovative livestock nutrition products gives your Company the product differentiation, and will help in improving the profit margins. These efforts are expected to start contributing to segment margins in the near-to medium term. Your Company will also continue to deepen its presence across regions through its 31 state-of-the-art manufacturing plants and network of more than 4200 distributors present across regions.

Crop Protection Business

Financial Year 2018-19 was a relatively difficult year for domestic crop protection companies due to erratic and patchy monsoon. Also, water levels in reservoirs in key states remained low which impacted the rabi season. Despite tough environment, your Company posted year-on-year segment revenue and segment result growth of 7.5% and 12.4%, respectively, in the standalone domestic business.

During the year under review, your Company has taken multiple steps to increase its product offering and increase connect with farmers and distributors. Your Company introduced products across categories (such as Reflex, Pixel, Annova, Beleaf, Czaar Green etc.) with the objective of upgrading product portfolio from solo to ready mix products. Marketing team also worked towards redesigning and standardizing product designs, templates and marketing collateral which helped increase the brand awareness. Your Company also launched a digital platform named – Drishtikon, to promote seamless communication with distributors and to promote transparency. The application was launched in November 2018 and stroked an immediate chord with the channel partners and witnessed high subscription from distributors. ‘Drishtikon’ is complementing the sales team by enabling them to meaningfully engage with distributors and farmers.

Your Company’s subsidiary, Astec LifeSciences Limited (“Astec”), continues to maintain strong performance for the Financial Year 2018-19 as Total Income and Profit Before Tax excluding exceptional items grew by 16.7% and 8.4%, year-on-year, respectively. Astec has successfully commissioned a backward integration plant in December 2018 which will help reduce its

dependence on raw material imports to some extent.

In the medium-term, the structural growth story of the domestic crop protection market remains intact given the focus on increasing the yield per hectare, limited arable land, rising labour costs and increase in consumption of herbicides and fungicides. Further, opportunities are increasing in the overseas markets in terms of contract manufacturing and off-patented chemistries. In this light, your Company will continue to expand its product portfolio either through in-house developments or through in-licensing arrangements. Your Company also aims to increase R&D capacities and build piloting capabilities, which will enable it to become preferred partner for the contract manufacturing business. Further, in Astec the Management will continue to invest in expanding capacities and in backward integration projects, which will support growth and margins.

Oil Palm Business

During the Financial Year, your Company benefited from increase in the prices of Crude Palm Oil as segment revenues increased by 16.0% year-on-year. This was despite the fact that Fresh Fruit Bunches (FFBs) arrival remained flat vis-à-vis last year. However, segment margins were lower than previous year due to higher procurement prices being paid for FFBs to the farmers to prevent spillover of the FFBs to the neighboring state from Andhra Pradesh.

Your Company has increased its area under oil palm plantation to around 68,400 hectares in the current Financial Year from approximately 64,125 hectares in the previous Financial Year. Also, new palm oil mill which was being set up in Seethanagaram, Andhra Pradesh has become operational. The new mill has a capacity to process FFBs at 60 tonnes per hour and uses continuous

sterilization technology which is expected to help improve yield in the medium-term.

India continues to imports approximately 70% of the total edible oil requirement and palm oil forms a significant share in overall edible oil imports. As per the Commission for Agricultural Costs and Price's (CACP) latest recommendation report for oil palm plantation, India's import of edible oil have increased from 6.7 million tonnes in the Financial Year 2008-09 to about 16 million tonnes in the Financial Year 2018-19. Therefore, Government of India provides special impetus to the growth of domestic palm oil production which is also visible in high import duty of 40% currently being levied for crude palm oil import.

Your Company continues to focus on its strategy of growing presence in certain regions, creating additional revenue streams from oil palm biomass and investing in R&D to improve FFB yield. The focus will also be on developing 4 (four) mandals allotted last year in Chittoor district of Andhra Pradesh. In addition, your Company will opportunistically evaluate tenders issued under the Oil Palm Development Programme (OPDP) and apply for additional areas to increase the area under oil palm cultivation.

Dairy Business

In the dairy business, your Company's subsidiary, Creamline Dairy Products Limited (CDPL), launched new products in the Financial Year 2018-19 with purpose of increasing the product offering. New product launches included products like- thick milk shakes in different flavours, premium range of ice-creams and yogurts in different flavours. All new products received encouraging response from customers. CDPL has also set up a new Ultra-high temperature (UHT) milk processing facility in Hyderabad plant for supplying the UHT milk.

In the first half of the year, there was a milk supply glut which led to lower milk prices and sharp decline in the Skim Milk Powder (SMP) prices, thereby impacting volume growth and margins. CDPL had to create mark-to market provisions on the excess butter stock during the first half of the year. However, the situation improved in the second half which witnessed improvement in volumes and there was no provisioning requirements as SMP prices showed an increasing trend. Further, share of value added products also increased to around 27% from 24% in the previous year.

Opportunities in the Indian dairy segment for private players remains large given rising middle class and urban population, changing dietary patterns towards protein based foods and increasing population. Value added product sales are expected to grow faster than liquid milk and this will benefit private dairies as margins are higher. CDPL is working across the dairy value chain to capitalise on the opportunity. CDPL will continue to launch new products which increases salience of value added products. Focus will also be on increasing share of cow milk which has lower variability in milk supply and on increasing the share of direct procurement from farmers. CDPL is also working on strengthening existing relationships with milk farmers and vendors by providing farmers with cattle feed, assisting with veterinary health-care and vaccinations.

CREAMLINE JERSEY

Be Healthy, Have Fun...

Poultry & Processed Foods Business

Your Company, has increased its stake in Godrej Tyson Foods Limited (GTFL) to 51% on March 27, 2019 and thereby the latter becomes a subsidiary from a Joint Venture earlier. The partner, Tyson India Holdings Limited, a subsidiary of Tyson Foods Inc., U.S.A, now holds 49% stake in GTFL from 51% held earlier. During the year, the business focussed on increasing the product portfolio in the 'Yummiez' product range and on growing the live bird business. As a result, GTFL's total income grew by 12.6% year-on-year for the Financial Year 2018-19. However, operating margins were impacted by sharp increase in raw material prices as compared to last year.

In the 'Yummiez' portfolio, GTFL launched the 'Royale' product range to include new chicken products in the portfolio. GTFL also focused on increasing brand visibility through outdoor advertising in key cities in which it operates.

In India's poultry market, the live poultry market constitutes 98% of total sales since most consumers prefer freshly culled chicken meat. Processed chicken meat production comprises 2% of total production, out of which only an estimated 1% undergoes processing into value added products that are ready-to-eat or ready-to-cook. The recent emergence of supermarkets and shopping malls has been supporting the growth in the retailing of chilled and frozen poultry products. GTFL will strategically continue to focus on growing the live bird business along with increasing the product portfolio and building brand in Yummiez and Real Good Chicken segments. Increasing distribution reach will also remain one of the key focus. Further, Ludhiana plant, which was set up for increasing vegetarian processed food product range is now ready and GTFL plans to launch to new vegetarian range in coming fiscal year.

D. COMPANY'S FINANCIAL AND OPERATIONAL PERFORMANCE:

Standalone Performance:

For the Financial Year 2018-19, your Company reported standalone total income of ₹ 4,344.60 Crore as compared to ₹ 3,719.35 Crore in the previous Financial Year. Profit before Exceptional Items and Tax rose to ₹ 307.49 Crore from ₹ 281.32 Crore reported last year.

The key highlights of Standalone Financial Statements for the Financial Year ended March 31, 2019 are as under:

Particulars	Amount (₹ in Crore)
Total Income	4,344.60
Earnings Before Interest, Tax, Depreciation and Amortisation	388.09
Reported Profit / (Loss) After Tax for the Year	207.88
Reported Total Comprehensive Income for the Year	206.67

Consolidated Performance:

For the Financial Year 2018-19, your Company reported consolidated total income of ₹ 5,923.85 Crore as compared to ₹ 5,237.72 Crore in the previous Financial Year. Profit before Exceptional Items and Tax was ₹ 389.00 Crore in Financial Year 2018-19 against ₹ 359.70 Crore in the previous Financial Year.

The key highlights of consolidated Financials for the Financial Year ended March 31, 2019 are as under:

Particulars	Amount (₹ in Crore)
Total Income	5,923.85
Earnings Before Interest, Tax, Depreciation and Amortization	508.95
Reported Profit / (Loss) After Tax for the Year	349.33
Reported Total Comprehensive Income for the Year	348.31

There is no significant change (i.e. change of 25% or more as compared to the immediately previous financial year) in the key financial ratios except in case of debt equity ratio and interest coverage ratio which have improved from 0.16 to 0.07 and from 9.83 to 14.99 respectively mainly on account of significantly lower borrowings.

E. OPPORTUNITIES, STRENGTHS, THREATS, RISKS & CONCERNS:

(i) Opportunities and Strengths:

- **Increase market share in existing business verticals:** Several sectors in which your Company operates are largely unorganized, therefore, cost leadership will be a key enabler for your Company to increase the market share of its products in those segments. 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.
- **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 the customers. The nationwide footprint also allows your Company to leverage the competitive advantages of each location to enhance 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. Synergies across diverse businesses provide ability to drive growth, optimize capital efficiency and maintain competitive advantage. Your Company also derive operational efficiencies by centralizing and sharing certain key functions across 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 a significant growth potential. Acquisition of Astec provided your Company access to strong R&D capabilities in the agrochemical active ingredients category. Investment is also being made in developing innovative technologies to further grow through product portfolio across businesses.
- **Focus on inorganically growing business offerings:** Your Company will evaluate inorganic growth opportunities, 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, amongst other things, they consolidate 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.

(ii) Threats, Risks & Concerns:

- **Unfavorable local and global weather patterns may have an adverse effect on the business, results of operations**: As an agri-based Company, the businesses are sensitive to weather conditions, including extremes such as drought and natural disasters. The availability of raw materials that 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 in India. 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. Your Company 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 exist 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 domestic and international markets for businesses, it cannot assure that this insurance coverage is adequate or that any losses will be adequately compensated by the insurers in the event of a product liability claim.

- **Seasonal variations in our businesses:** Your Company's businesses are subject to seasonal variations that could result in fluctuations in performance. For example, in animal feed business, your Company sells lower volumes of cattle feed during the monsoon due to the availability of green fodder. In poultry and processed foods business, the demand for poultry products is higher in the second half of any Financial Year since the consumption of poultry meat and eggs is 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 diversified operations, dependency on revenue from animal feed business, and dependency on 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:

The work force is a critical factor in maintaining quality and safety, which strengthens the competitive position and the human resource policies focus on training and retaining of the employees of your Company. Your 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 your Company conducts employee engagement programs from time to time. Your Company also hires contract labour at few facilities, from time to time. Employees at certain facilities have formed registered unions. However, your Company believes it has good relations with the employees. As on March 31, 2019, the total number of permanent employees was 2,687.

Further, your Company would like to sincerely appreciate the valuable contribution and support of employees towards the performance and growth of your 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.

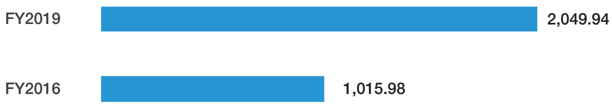
GAVL has delivered strong performance over the years

Revenues from Operations (₹ Cr.)

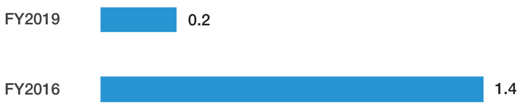
Earnings before interest, depreciation and tax (₹ Cr.)

Profit before tax (₹ Cr.)

Total Equity (₹ Cr.)

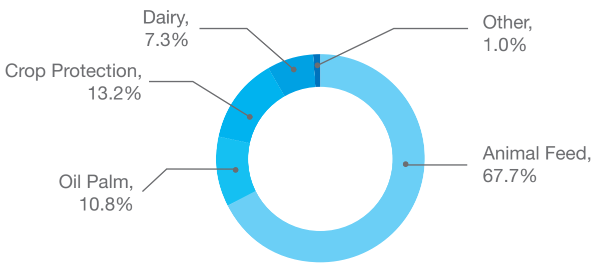


Net Debt to Total Equity (times)



GAVL has diversified the product portfolio

Segmental Revenue Mix **FY2016**



Segmental Revenue Mix **FY2019**