MANAGEMENT DISCUSSION AND ANALYSIS

REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT OF GODREJ AGROVET LIMITED

FOR THE FINANCIAL YEAR 2019-20

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. COVID-19 UPDATE

Currently, the global economic environment is highly unpredictable as the duration and the impact of unprecedented COVID-19 pandemic is difficult to ascertain. At Godrej Agrovet Limited, we have always put our customers at the heart of everything we do. Amidst one of the most uncertain environment faced today, our employees across locations are relentlessly working towards providing uninterrupted supply of our products (feed, agrochemicals, dairy products, poultry and processed poultry products) for animal husbandry, crop protection and household consumption. Your Company is ensuring utmost safety of its employees by following measures such as usage of masks/gloves, regular temperature screening, setting up of disinfectant tunnels, maintaining social distancing, allowing limited workforce and conducting comprehensive factory sanitization.

Post the COVID-19 outbreak in mid-March 2020, our operations were disrupted as volumes and sales declined across businesses and factories were closed, after the nationwide lockdown announced on March 24, 2020. However, agricultural activities were allowed during lockdown and our factories became operational in April 2020, after obtaining necessary approvals from local authorities. The demand for our products, remain firm and your Company is taking all necessary steps to ensure smooth supply of products along with maintaining safety of employees and business partners.

C. INDIAN ECONOMY AND AGRICULTURE OVERVIEW:

Indian Economy Overview

In February 2020, Central Statistical Organization (CSO) estimated Indian Gross Domestic Product (GDP) to grow at 5.0% for fiscal 2019-20, which was itself at multi-year low, mainly due to weak performance of the manufacturing and the construction sectors vis-à-vis previous fiscal. At that time, concerns regarding the COVID-19 impact were primarily limited to lower imports from China which would have affected production and supply chain in few sectors for few months in India. However, with rapid outbreak of COVID-19 in March 2020 leading to lockdown in multiple countries, there was a sharp decline in demand across sectors globally and India was no exception. This led to a low GDP growth rate estimate of 3.1% for the fourth quarter of

2019-20 as per CSO, thereby lowering the GDP growth estimate to 4.2% for 2019-20.

We enter the Financial Year 2020-21 with high degree of uncertainty with respect to economic situation, both globally and in India. Various domestic and global agencies are expecting India's GDP to contract in fiscal 2020-21, as the extended lockdown has severely impacted the economic activity in the country. Agencies in their expectations have highlighted that sectors such as agriculture, public administration and public utilities are more resilient and are expected to be less adversely impacted compared to other sectors. Further, pick-up in the economic activity may start from second half of 2020-21 and the Indian economy is expected to bounce back stronger in the next Financial Year.

However, given high uncertainty, future predictions need repeated recalibration because of the rapidly changing environment. Modelling parameters for growth and profitability across sectors is tough given inadequate information on multiple parameters. Extent of adverse impact of COVID-19 will depend on degree to which the spread of virus can be controlled and the level of pick-up in the economic activity in 2020-21. The Indian Government has announced a fiscal stimulus of around ₹20 lakh crore (nearly 10% of Indian GDP), especially targeting the key sectors such as MSME (micro, small and medium enterprises), agriculture, financial services and other essential services. Also, Reserve Bank of India has taken supportive measures using various instruments to help maintain adequate liquidity and to ease cash flow pressures. This provides much needed near-term relief and we expect Government to announce more measures to support economic growth in the medium-term.

Agriculture Sector Overview

For the Financial Year 2019-20, agriculture sector is estimated to grow at 4.0% compared to low growth rate of 2.4% seen in the previous Financial Year, thanks to the strong Rabi season. Outbreak of COVID-19 has affected the agriculture sector in mid-March 2020, but, the impact was limited. Cumulative rainfall during the monsoon season was 110% of the Long Period Averages (LPA), but was erratic and unevenly distributed both geographically and periodically. Therefore, the production of food-grains was adversely impacted during the Kharif season, however, sowing in the Rabi season was up by 10% due to good water reservoir levels and high soil moisture content. As a result, food grain production for the Financial Year 2019-20 is estimated at 295.67 million tonnes compared to previous year production of 285.21 million tonnes.

For Financial Year 2020-21, while the outbreak of COVID-19 has caused supply chain disruption and limited availability of labour, the impact on the agriculture sector is expected to be lower than other sectors. Further, agriculture sector is expected to recover faster, once economic activity picks up. Also, macro indicators for Indian agriculture sector are favorable with normal monsoon expectation, high reservoir levels, improved soil moistures and remunerative crop-prices. Indian Meteorological Department (IMD) in its recent monsoon forecast, has predicted a normal south-west monsoon for the year and rainfall is expected to be at 102% of the LPA (with a model error of +/- 4%). IMD highlights that 'El Nino' conditions will remain weak during the monsoon in the current year. This comes as a relief amid the ongoing health crisis, as normal monsoon should support agricultural growth in Financial Year 2020-21. Nevertheless, the spatial and temporal distribution of rains will remain crucial for timely sowing and harvesting.

Government's recently announced measures for the agriculture sector can immensely benefit the sector, especially in the long-run. Setting up of central law for inter-state trade, changes to Essential Commodities Act and creating of a legal framework to facilitate farmers to directly engage with procurers are measures which can attract private sector participation and can result in higher income for the farmer. It will lead to creation of better infrastructure and will increase efficiency levels, however, timely implementation of the measures is critical.

D. 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. The 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 follows:

Animal Feed Business

In the first nine months of the year, volume growth was 7.9%, driven by fish feed and layer feed segments, but 11.3% volume decline in the fourth quarter lowered the annual growth rate to 2.9% for the Financial Year 2019-20. In February 2020, rumours of COVID-19 infection through poultry and poultry product consumption led to steep volume decline in the poultry feed segment. Further, outbreak of COVID-19 from mid-March 2020 disrupted volumes and sales in other feed segments as well. Nevertheless, for the full year, layer feed and fish feed segments registered a strong volume growth. Further, shrimp feed volumes grew in the current year over the previous year (after seeing a decline for last 4 years) supported by changes made in the product formulation.

Segment revenue grew by 20.1% during the year driven by price hikes taken for majority of

our end-products. This helped improve segment results, which increased by 19.6% compared to the previous year. Segment results could have been higher, but prices of key raw material were firm in the first nine months of the year, which limited the benefits of price hikes taken. Segment profitability was also impacted by volume decline seen in February and March.

In your Company's 50:50 joint venture with Advanced Chemical Industries Limited (ACI), Bangladesh, named ACI Godrej Agrovet Private Limited, performance improved significantly over the previous year as the Company posted year-on-year revenue and profit before tax growth of 56.9% and 339.6%, respectively. This was on account of strong volume growth in all segments, i.e. cattle, poultry and aqua feed.

Over the medium-term, your Company will aim at capitalizing on the R&D initiatives undertaken in the past few years which will enable it to improve segment margins. Our efforts to increase market share are yielding results as seen in the volume growth over the last two years (excluding the COVID-19 impact in Financial Year 2019-20). Therefore, we will continue to focus on our strategy of having deeper penetration in existing geographies and entering new geographies. We will also leverage digital analytics and automation in raw material purchase and supply chain management which will help us optimise our costs in the segment.

Crop Protection Business

In current Financial Year, your Company launched 'Hitweed Maxx' which is an in-house herbicide and is a one-stop solution for controlling all major weeds in the cotton crop. Your Company also launched 'Hanabi', through an in-licensing arrangement with Nissan Chemical Corporation, Japan, which is used for managing mites in tea plantation. In addition, other products such as Bloxit, Veteran, Prudens and Rohelus were launched, which will not only enhance the product portfolio but will also help your Company enter new crops and new markets.

Crop Protection

In terms of performance, standalone revenue growth was modest at 3.3% and segment results declined marginally by 3.9% for the Financial Year 2019-20. This was due to lower volumes compared to the previous year, especially of the higher margin specialty products. Lower volumes were on account of the erratic and uneven monsoon during the Kharif season which resulted in lower application opportunities of our products. Also, placements in the month of March 2020 got severely impacted due to COVID-19, resulting in significant drop in volumes for the month. Your Company's subsidiary, Astec LifeSciences Limited, maintained its strong performance for the Financial Year 2019-20 as total income and profit before tax (excluding non-recurring and exceptional items) grew by 20.9% and 20.8%, year-on-year, respectively. Segment-wise, revenue growth is driven primarily by the enterprise sales, however contract manufacturing business has also grown over the previous year. Geographically, both the domestic business and the international business contributed to growth for the year.

Opportunities for the Indian agrochemical sector are increasing both in the domestic market and the overseas market. In the standalone business, the Company will focus on expanding its product portfolio either through in-house developments or through in-licensing arrangements. In addition, a greater emphasis will be placed on efficient working capital management by emphasizing on cash sales, effective distribution management and increasing collection. In your subsidiary Astec LifeSciences, the aim will be to develop new relationships for contract manufacturing business with international companies, to diversify into other chemistries and to invest in backward integration projects which will reduce dependence of raw material sourcing from international markets. Your Company is also in the process of setting up state-of-the-art R&D lab which will help business conduct in-house research and deliver new projects.

Oil Palm Business

While the Fresh Fruit Bunches (FFBs) volumes increased by 14.6% year-on-year in the Financial

Oil Palm

Year 2019-20, decline in the Crude Palm Oil prices and the Palm Kernel Oil prices during the peak season (June to September) impacted the performance of the oil palm segment. Crude Palm Oil and Palm Kernel Oil prices declined by 16% and 32%, respectively, during the first half of the year. Also, oil content in the FFBs was lower in the current period vis-à-vis the previous year. As a result, segment revenue and segment result declined by 0.9% and 21.2%, respectively, in the Financial Year 2019-20.

However, international crude palm oil prices significantly increased from December 2019 onwards on expectation of lower supply from Malaysia, which is the largest producer and exporter of palm oil. This price increase along with sequential improvement in oil extraction ratio, supported the performance of the segment in the second half of the year.

At Godrej Agrovet, our continuous efforts have been to make our factories more environment friendly through our energy conservation and sustainable environment initiatives. Our efforts have been well recognized and our division was awarded the Bombay Civic Award (2019-20) from Bombay Chambers of Commerce and Industries for sustainable environment initiatives. Our palm oil mill was also awarded silver position at SEEM National Energy Management Awards in September 2019. Additionally, we have been recognized for the safety initiative at our factories and received National Safety Award (Runner-up) from Ministry of Labour and Employment.

In the medium-term, our focus will remain on improving the yields by undertaking different R&D initiatives in our production process. Our latest palm oil mill which uses continuous sterilization technology will further help improve yields in the medium-term. We are working on R&D projects to increase the share of revenue from value added products, which will help reduce volatility in margins to some extent. Emphasis also remains on increasing area under coverage outside Andhra Pradesh in other regions like Telangana.

Dairy Business

Dairy Business

Financial performance in our dairy subsidiary, Creamlime Dairy Products Limited was impacted by high procurement prices of milk which lowered profitability. Despite taking price hikes at regular intervals, the entire procurement price increase could not be passed to the end customer. Further, in the current year (2019-20), milk volumes have declined compared to previous year (2018-19). However, our value added product portfolio received a very good customer response, especially the new launches, so value added product portfolio grew in mid-teens during the year. Also, salience of the value added product portfolio increased to 29% in the current year from 27% in the previous year and 24% two years ago.

Our focus has been on increasing the share of value added products in the product portfolio which have lesser volatility in margins. In this regard, we have continuously launched new products over the last three years. Current year new launches include new variants of thick shakes, butter milk, yogurts etc. We have also launched energy drink named ‘Jersey RECHARGE’ which is a nourishing milk protein drink targeting the youth.

In the medium-term, focus remains on increasing the share of value added products, strengthening our brand awareness and building on our relationship with our business partners, mainly the farmers. We are looking at introducing new products based on market research and customer demand. We are investing in increasing the number of our Jersey distribution centers which would help us offer our entire product range under single roof to a larger audience and drive customer exclusivity.

Poultry & Processed Foods Business

Financial Year 2019-20 was a difficult year for the poultry businesses, especially the live bird segment. During the first nine months, the live bird business was impacted by supply side glut which kept output prices low, while the input prices (which forms a significant portion of overall cost of production) were very high.

Poultry & Processed Foods

As highlighted earlier, rumour in February linking coronavirus spread to chicken and eggs consumption sharply dented the demand and pricing for poultry and poultry products in the fourth quarter of the year. Overall demand in the industry declined by around 50% and ex-farm gate prices fell by around 70% in one month. This situation led to sharp losses in the live bird business of our subsidiary Godrej Tyson Foods Limited in the fourth quarter. However, rumours started receding from mid-April 2020 as Government took initiative by issuing advisory that poultry consumption is safe and the message was spread through social media to educate people. As a result, demand and prices for chicken and poultry products increased from April-2020 onwards which will help support growth and profitability in the near-term.

Chicken consumption in India has been steadily rising over the past few years driven by preference for protein rich food and rising income levels of the middle class. However, per capital consumption of chicken in India is lower than the world average per capita consumption levels. As 95% of the India poultry market is wet market, your Company in the fiscal 2018-19 started focusing on growing the live bird business and investments are on track for expanding the business. In addition, in the Yummiez segment we have launched multiple vegetarian ready-to-cook products which are being manufactured in the state-of-the-art facility in Ludhiana and we aim to increase the market share in the vegetarian processed food industry.

E. COMPANY'S FINANCIAL AND OPERATIONAL PERFORMANCE:

Standalone Performance:

For the Financial Year 2019-20, your Company reported standalone total income of ₹5,159.69 Crore compared to ₹4,394.90 Crore in the previous Financial Year. Profit before exceptional items and tax rose to ₹359.22 Crore from ₹307.49 Crore reported in the previous Financial Year.

The key highlights of Standalone Financials for the Financial Year ended March 31, 2020 are as under:

Particulars	Amount (₹ in Crore)
Total Income	5,159.69
Earnings Before Interest, Tax, Depreciation and Amortization	462.59
Reported Profit / (Loss) After Tax for the Year	293.31
Reported Total Comprehensive Income for the Year	290.86

Consolidated Performance:

For the Financial Year 2019-20, the Company reported consolidated total income of ₹7,010.86 Crore compared to ₹5,970.84 Crore in the previous Financial Year. Profit before exceptional items and tax was ₹358.55 Crore in Financial Year 2019-20 from ₹389.00 Crore in the previous Financial Year.

The key highlights of consolidated Financials for the Financial Year ended March 31, 2020 are as under:

Particulars	Amount (₹ in Crore)
Total Income	7,010.86
Earnings Before Interest, Tax, Depreciation and Amortization	535.30
Reported Profit / (Loss) After Tax for the Year	300.58
Reported Total Comprehensive Income for the Year	296.60

Key Financial Ratios:

The key financial ratios for both Standalone and Consolidated Financials are as per the below table:

Particulars	Consolidated		Standalone	
	2019-20	**2018-19**	**2019-20**	**2018-19**
Debtors Turnover Ratio	8.77	8.73	7.86	8.04
Inventory Turnover Ratio	6.03	5.51	6.38	5.54
Interest Coverage Ratio	9.30	12.12	16.28	14.99
Current Ratio	0.96	0.99	1.02	1.00
Debt Equity Ratio *	0.26	0.18	0.23	0.07
Operating Profit Margin (%)	5.56	6.94	7.48	7.60
Net Profit Margin (%)**	4.32	5.90	5.73	4.79
Return on Networth (%) **#	14.08	18.73	19.76	15.52

* Consolidated and Standalone debt equity ratio has increased due to increase in borrowings, mainly the short-term borrowings.

** Consolidated net profit margin and consolidated return on networth is lower than previous year due to lower consolidated net profit in the current Financial Year which was impacted by loss incurred in our subsidiary Godrej Tyson Foods Limited.

Standalone return on networth is higher than previous year on account of higher net profit in the current year. There is no significant change (i.e. change of 25% or more) as compared to the immediately previous Financial Year) in other key financial ratios.

Formulae used for computation of key financial ratios:

Debtors Turnover Ratio	Net sales (i.e. revenue from operations)/Average of opening and closing trade receivables
Inventory Turnover Ratio	Cost of Goods Sold/Average of opening and closing inventories
Interest Coverage Ratio	Profit before interest and taxes/Finance costs
Current Ratio	Current assets/Current liabilities
Debt Equity Ratio	Debt (net of cash)/Total equity
Operating Profit Margin	Profit before interest and taxes /Net sales
Net Profit Margin	Profit after tax/Net sales
Return on Networth	Profit after tax/Average of total equity

F. OPPORTUNITIES, STRENGTHS THREATS, RISKS & CONCERNS:

(i) Opportunities and Strengths:

- **Increase market share in existing business verticals:** Several sectors in which the Company operates are largely unorganized, therefore, cost leadership is a key enabler for the 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. Also in the medium-term, due to supply chain disruption and lack of liquidity leading to closure of smaller business units, larger players with strong balance sheets will gain 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. The 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, the 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 the Company to leverage its 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. The Company also derives 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:** The 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. The Company also focuses on R&D efforts in areas where there is a significant growth potential. Acquisition of Astec LifeSciences Limited (Subsidiary Company) provided the 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 our product portfolio across businesses.

- **Focus on inorganically growing business offerings:** Your Company will evaluate inorganic growth opportunities, in-line with the strategy to grow and develop market share or to add new product categories. The Company may consider opportunities for inorganic growth, such as through mergers and acquisitions, if among other things, they consolidate market position in existing business verticals or achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits. The Company can also look at opportunities which strengthen and expand product portfolio and increase sales and distribution network.

(ii) Threats, Risks & Concerns:

- **Adverse economic impact of COVID-19 pandemic**: While agriculture is more resilient than other sectors as it forms part of the essential items, if COVID-19 pandemic continues for a very long time, it can lead to issues such as unavailability of labour, inter-state trade movements, exports and imports which can adversely impact the businesses in which we operate.

- **Unfavourable 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 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 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 the 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. The 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 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 the 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 the businesses:** The Company's businesses are subject to seasonal variations that could result in fluctuations in performance. For example, in Animal Feed business, the Company sells lower volumes of cattle feed during the monsoons 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 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 addition, financial performance is also impacted by other risks such as inability to manage diversified operations, dependency of revenue from Animal Feed business, and dependency of utilization of services of third parties for our operations.

G. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

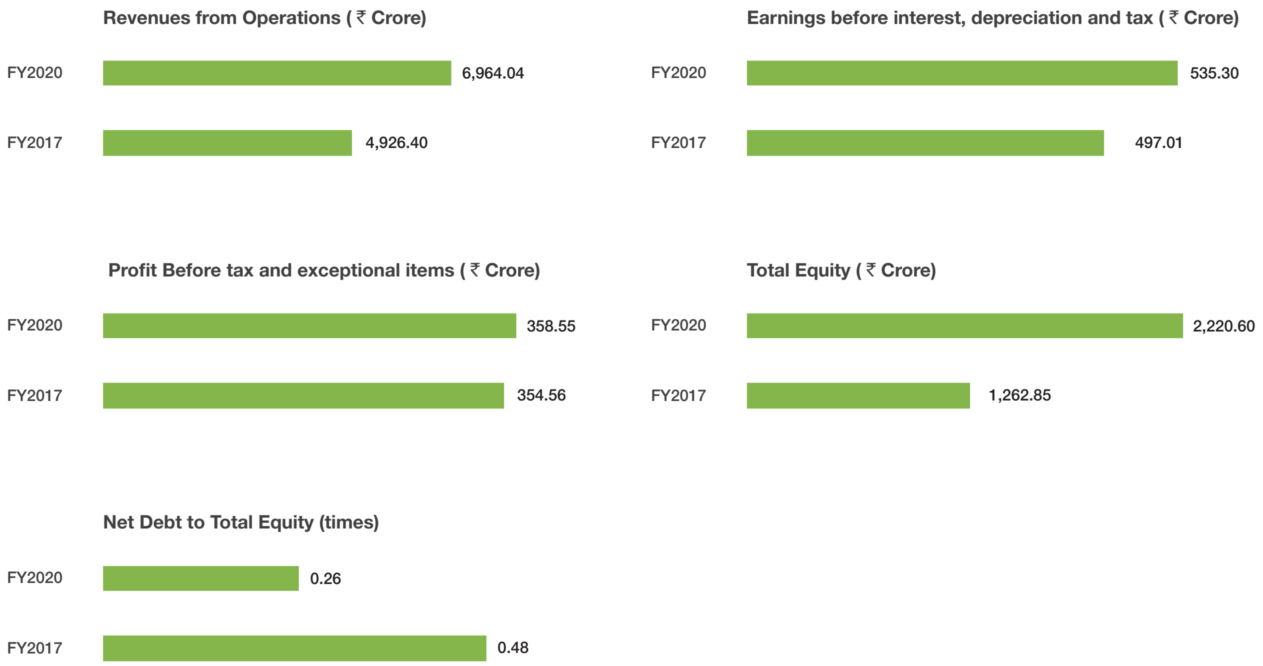
Your Company remains committed to improve the effectiveness of internal control systems for business processes with regard to its operations, financial reporting and compliance with applicable laws and regulations. The Company has a proper system of internal controls to ensure that all assets are safeguarded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

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

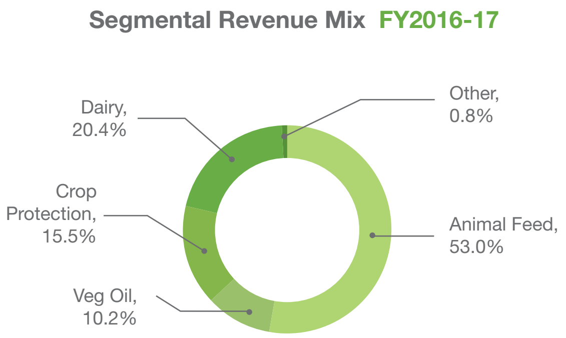
The work force is a critical factor in maintaining quality and safety, which strengthens the competitive position and the human resource policies focus on training and retaining of the employees of the Company. The Company trains employees on a regular basis to increase the level of operational excellence, improve productivity and maintain compliance standards on quality and safety. Employees are offered performance-linked incentives and benefits and the Company conducts employee engagement programs from time-to-time. The Company also hires contract labour at few facilities, from time-to-time. Employees at certain facilities have formed registered unions. However, the Company believes that it has good relations with the employees. As on March 31, 2020, the total number of permanent employees was 2,708.

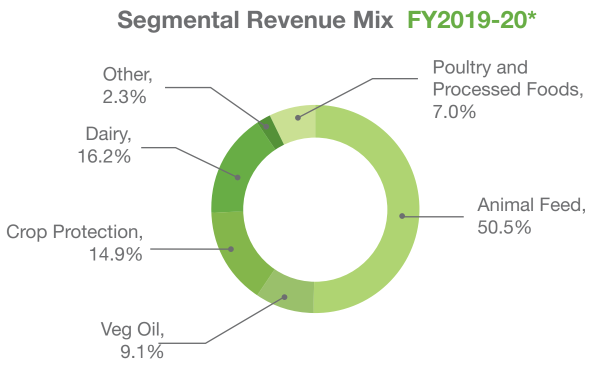
The Company would like to sincerely appreciate the valuable contribution and support of employees towards the performance and growth of the Company. The management team comprises of professionals with proven track record. The Company continues to remain focused and sensitive to the role of human resources 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



GAVL has diversified the product portfolio





*For Financial Year 2019-20, revenue from real estate has been included in other segment