

Management Discussion and Analysis

SWOT Analysis:

Strengths:

- ✓ Milk and dairy products known for purity, freshness, and measurement.
- ✓ Enjoys highest ROCE in the industry.
- ✓ Enjoys High Asset Turnover Ratio.
- ✓ Low Working Capital needs.

Weakness:

- ✓ Conservative approach.
- ✓ Too much of focus on Corporate Governance.

Opportunities:

- ✓ Pan India distribution strengths.
- ✓ Integration with Reliance Dairy.
- ✓ Distribution arms strengthened.

Threat:

- ✓ Poor monsoons.
- ✓ Shortage of SMP.
- ✓ Dairy farmers looking for alternative business.

On The Economic Front...

The India's Economic performance in 2016-17 has moderated as shown in the Economic Survey. The Economic growth is expected to revive in 2017-18 with the expected normalization in the economy as the cash crunch eases. This is indicative of the relative stability of the economy.

There has been an improvement in the government's fiscal management in 2016-17 aided by the buoyancy in revenue collections. The performance of key economic indicators and the major policy developments of 2016-17 along with the outlook for 2017-18 is given below.

Snapshot of Macro-economic Indicators (%):

Particulars	FY17
GDP growth	7.1
Inflation (WPI)	2.8*
Inflation (CPI)	4.9*
Savings rate	NA
Capital formation	26.59#
CAD	0.3#
Forex reserves (\$ Bn.)	360.3*
Export	0.75*
Import	-7.42*

Source: Economic Survey 2016-17, *up to Dec'16, #until H1FY17

Consolidation Mode, Putting Our Best Foot Forward



- ✓ **Acquires Dairy Business of XYZ Ltd.**



- ✓ **Retail Business consolidated with ABC Ltd.**



- ✓ **Joint Venture with an European player for Yogurt.**

As we celebrate Silver Jubilee of our business operations, we are getting into a consolidation mode both in the dairy and retail space so that we can focus on our strengths and grow to the next level.

On the dairy front, we have grown by leaps and bounds since inception. From a milk procurement level of mere 20,000 liters per day, today we have crossed 1 Million liters per day mark. We had also successfully forayed into value added products and have established an enviable position in curd, butter milk, paneer, and flavoured milk segments.

The integration in dairy space with the acquisition of dairy business of ABC Ltd is in the right direction. The dairy business of ABC Ltd does a milk procurement of about 2 lakh liters per day. In accordance to our terms of agreement, our dairy products can be showcased in XYZ's 3000+ stores that have presence in about 370 cities.

The move strengthens not only our distribution but also our milk procurement levels too. This apart, the acquisition gives us an opportunity to add 4 new states to our fold: Punjab; Haryana; Madhya Pradesh, and Rajasthan.

Yet another consolidation that has happened during the year that has gone by is in the Retail space. All the assets and liabilities of 4 business verticals have been transferred as a slump sale (on a going concern basis) at Rs 135 crore to IJK Ltd, a wholly owned subsidiary and IJK Ltd had issued 1.40 crore shares at a face value of Rs 10 and premium of Rs 86.43 as a consideration.

IJK Ltd will there after transfer 3 business verticals to XYZ by way of de-merger and receive Rs 295 crore worth shares (1,78,47,420 shares at a face value of Rs 10 and premium of Rs 165.29) for demerger to shareholders of IJK Ltd. IJK Ltd is expected to own 3.65% of ABC Ltd.

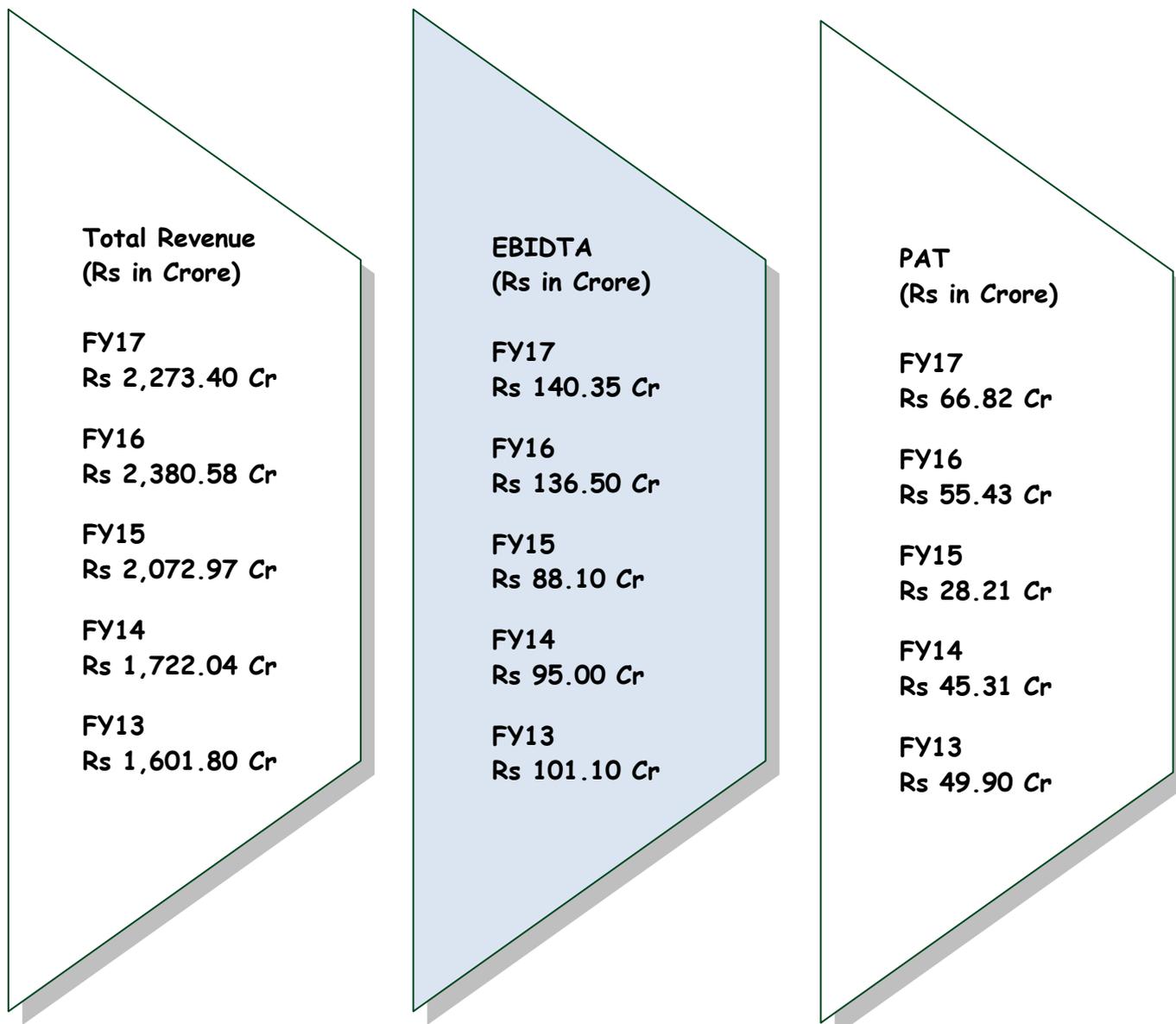
The two steps: 1) slump sale of 4 divisions to IJK Ltd and 2) de-merger of 3 divisions from IJK Ltd to ABC Ltd will be completed in composite scheme of arrangement to be filed at the High Courts for necessary approvals. The objectives of proposed arrangement include: integration; investments by strategic players; cost savings; consolidation; unlocking value; enhance management focus.

With the focus on all-round consolidation, it has been decided to make further strides in dairy space in general and in value added products in particular. Towards this end, we have decided to get into Yogurt by teaming with an European player. We have begun the Joint Venture process to set up a pilot plant in Navi Mumbai. Based on the success of our pilot project, we shall replicate the model in at least 4 other different locations.

Road Ahead



Tangible Results:



We have set our aspiration to emerge as a 1 Billion dollar company soon. At the moment, all our efforts are moving in that direction. Apart from our organic growth both in the liquid milk and value added products space, the acquisition of dairy business of XYZ Ltd has been in the direction to scale up in the dairy space. We are looking for growth both through the organic and inorganic route, provided there are synergies.