

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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## ECONOMIC OVERVIEW

### Global Economy

The International Monetary Fund (IMF) projects global economic growth to be robust during 2018. Growth is expected to be broad-based with the advanced economies (AEs) growing above their potential and emerging markets and developing economies (EMDEs) also posting higher growth. Latest indicators such as Purchasing Managers' Index (PMI) and Organisation for Economic Cooperation and Development (OECD) Composite leading indicators suggest some moderation in the underlying drivers of economic growth. On balance, however, the global economic growth outlook remains positive. Consequently, financial conditions in advanced economies have tightened. A stronger US dollar is rattling emerging market currencies. At the same time, crude oil prices, partly reflecting geopolitical risks, have firmed up. Thus, the underlying global macro-financial conditions coupled with geopolitical uncertainty have potentially increased spillover risk to EMDEs.

### Indian Economy

India's gross domestic product (GDP) growth at 7.7 per cent in Q4: 2017-18 shows that the Indian economy is well on the recovery track on the back of a sharp pick-up in gross fixed capital formation. Further, there has been an uptick in capacity utilisation with some industries such as steel closing the gap. The aggregate demand composition indicates a broad-based growth with revival of investment. The Government has shown a significant commitment to fiscal consolidation. Gross fiscal deficit of the Central Government was brought down from 4.1 per cent of GDP in 2014-15 to 3.9 per cent in 2015-16 and further to 3.5 per cent in 2016-17, and remained at 3.5 per cent in 2017-18.

## INDUSTRY STRUCTURE, DEVELOPMENTS & OUTLOOK

### Paddy/Rice

As per FAO Rice Market Monitor, world paddy production in 2017-18 was 759.6 million tonnes (503.9 million tonnes, milled basis). At that level, global production would exceed the 2016-17 record by a modest 0.6 percent, or 4.5 million tonnes. Indeed, various Asian countries saw cropping activities disrupted by floods or drought during their main-crop cycles. Although in a few cases more normal growing conditions allowed secondary crops to compensate for initial shortfalls, these weather setbacks are likely to result in Asian production posting an only small (0.7 percent) annual increase to 686.7 million tonnes.

FAO's first forecast of world paddy production in 2018 sees global output staging a 10.3 million tonne annual expansion to a new high of 769.9 million tonnes (510.6 million tonnes, milled basis). The forecast 1.4 percent growth is envisaged to be area-driven, coming in response to improvements to producer prices and ongoing state support. This would be namely the case in Asia, where paddy plantings are seen regaining momentum next season. Within the region, the largest absolute output increase is anticipated to concern India, although early prospects also point to sizeable production rebounds in Bangladesh, Sri Lanka and Viet Nam along with gains in Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, the Philippines and Thailand.

World rice utilization is predicted to expand by 1.1 percent in 2017/18 to 503.9 million tonnes (milled basis). A 1.3 percent increase in food use to 405.8 million tonnes would underpin this growth, while combined volumes destined for other uses, including feed, seeds, industrial uses and post-harvest losses, remain little varied from the previous year. FAO's first forecast sees world rice utilization expanding by an additional 5.2 million tonnes in 2018/19 to reach 509.1 million tonnes.

Global rice inventories at the close of 2017/18 marketing seasons are set to rise by 1.1 percent to 170.9 million (milled basis). China (Mainland) is still expected to account for much of this growth, although, among importers, carry-overs are also seen staging sizeable recoveries in Bangladesh and Brazil, more than compensating for drawdowns in Indonesia, the Republic of Korea, Saudi Arabia, Sri Lanka and the United Republic of Tanzania. Meanwhile, preliminary prospects point to

global rice production exceeding utilization in the forthcoming season. Thus, global rice reserves at the close of 2018/19 marketing years look headed towards their third successive increase, reaching 172.9 million tonnes. This level would stand 1.2 percent above 2017/18 expectations, being sufficient to keep the world stock-to-use ratio at a comfortable 33.5 percent.

As per 3rd Advance Estimates of production of major crops for 2017-18 in India as released by the Department of Agriculture, Cooperation and Farmers Welfare, Total production of Rice during 2017-18 is estimated at record 111.52 million tonnes. Production of rice has increased by 1.82 million tonnes than the production of 109.70 million tonnes during 2016-17. It is also higher by 5.22 million tonnes than the last five years' average production of 106.29 million tonnes.

India - Budgetary allocations, production support, support prices: It was announced that minimum support prices (MSPs) for all Kharif crops covered by the support price programme would be set at a minimum of 1.5 times their cost of production, as part of the its efforts to double farmer incomes by 2022. The initiative forms part of the 2018 budgetary allocations, which also call for officials to study a mechanism that would ensure farmers receive adequate retribution, in case prices fall below prescribed MSP's. Among other measures, agricultural credit would also be boosted, along with investment on agro-processing, while market infrastructure would be upgraded to enhance small scale and marginal farmers' access to consumers and bulk purchasers.

In view of these incentives and assuming no major setback is incurred, production in India is forecast to rise by an additional 1.8 percent in 2018, to reach an all-time high of 169.5 million tonnes (113.0 million tonnes, milled basis).

#### **COMPANY OVERVIEW & ROLE**

Lakshmi Energy and Foods Limited, one of the largest producers of rice, is in the business of agri based products such as rice processing, food processing and green power generation based on agri-waste mainly rice husk which is one of the Company's by-products. Having come a long way since its inception in 1981, company's presence is all pervasive starting from grass root level of farmers, Mandi yards through representatives, procurement, transportation, warehousing, paddy processing, generating other by-products like rice bran oil, de-oiled cakes and using husk for power plant.

Company is direct motivation for group of farmers to grow quality paddy. As the company has not only been traditionally procuring paddy from them but also playing important role in cultivation and guiding on seed through expert groups and associations. Company's representatives are present at all procurement stages, even in market to effectively liaison with concerned agencies. Hence, the process of right from seeds to "consumer plate" is efficiently managed. Even we arrange our transport & logistics services for warehousing. About 3 lac Farmers, 3700 commission agents, 10,000 Transporters, 2000 direct and indirect employed persons and their families are associated with the company.

In last decade, the company has entered into branded and specially packaged rice in various varieties to target the all class of society including middle and lower middle class. The brand 'Lakshmi foods' become synonym of quality and affordability. The company's major objective becomes food security with quality even to lowest class of society. Organised marketing channels, C&Fs, distributors, agents and shopkeepers are showing confidence into the company and resulting into growth of sales.

The company's plant, one of the largest and most modern paddy processing units in the world, is spread across 125 acres (approx) and situated along the Chandigarh-Ludhiana National Highway, at Khamanon, Punjab, India. The plant has state of the-art machinery, custom-picked from all across the globe, including Japan, Germany, USA and Denmark. All stages of operation of the plant are fully automatic and controlled by PLC. Our Industry is integrated with exclusive and specialized Plants for production of Raw Rice, White Sella Rice, Golden Sella Rice and Steamed Rice. The grains are not subject to even a slight human touch throughout the process. Company has about 1.20 Million MT per annum paddy processing capacity complemented by over 500000 MT covered storage capacity in addition to 500000 MT of open storage. The company also has its own logistics and handling set up.

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Company's packaging is through fully automatic plant using the latest technology in tamper-proof bags, meeting the strictest of international standards in packaging, ensuring unmatched long lasting quality, purity, aroma and taste. Company's products are also widely acclaimed and preferred for their unmatched, inherent and intrinsic nutritional values, health traits.

The Company offers related products in value chain of Rice supply chain from paddy to rice, rice to rice bran edible oil, deoiled cake, and eco-friendly 'Green Power' generated from rice husk. The rice bran edible oil, which is an excellent medium for cooking, is one of the best one can find, especially because of its fat-reducing qualities. The 'Green Power' generated from rice husk, a waste by-product, is also one of the cleanest varieties of power.

### **Biomass power**

Biomass, bagasse, forestry and agro residue & agricultural wastes are used as fuel to produce electricity. Biomass power plants in India are based mostly on agricultural wastes. Gasifier-based power plants are providing a great solution for offgrid decentralized power and are lighting homes in several Indian states. While for providing grid-based power, small to medium size thermal biomass power plants are suitable for Indian conditions.

Some of the Indian states leading the pack in establishing biomass-based power supply are Karnataka, Andhra Pradesh, and Maharashtra. Ironically, states having agricultural-based economy have not properly been able to utilize the opportunity and figure low on biomass energy utilization. Only Uttar Pradesh has utilized large part of the biomass potential in north Indian States and that is mainly due to the sugarcane industry and the co-generation power plants. Interestingly Punjab and Haryana don't have much installed capacity in comparison to potential even though tariff rates are more than Rs. 5 per unit, which are better than most of the states.

Energy from biomass is reliable as it is free of fluctuation unlike wind power and does not need storage to be used in times of non-availability as is the case with solar. Still it is not the preferred renewable energy source till recently due to seasonal component of raw material availability. In developing economies like India, the pollution control is a serious issue for the government. In most of the agri-cultivating area, agro waste is commonly burnt in the field itself resulting into serious environment hazard. The control burning of bio-waste in the hi-tech boilers and generating green power is real gift to the society. Lakshmi has taken this as a serious business and developed logistic chain for collecting raw material from fields, farmers, small mills and other available sources in Punjab. This has resulted in continuous operations of our Power Plant from limited season to round the year power generation business. This has also generated employment for several man months.

The company is producing "green energy" from husk / biomass by setting up biomass based power plant of 30 MW capacity. The company had entered into a Power Purchase Agreement in March, 2013 with Punjab State Power Corporation Limited (PSPCL) for a period of 20 years to supply electricity/power and is selling power to PSPCL at a lucrative price.

### **OPPORTUNITIES & THREATS**

#### **Opportunities**

Rice is the most important staple food for a large part of the world's human population. There is growing demand for rice from both the international and domestic market. As consumers, both in India as well as globally, become more perceptive and conscious about food quality, the use of Basmati Rice is growing at a much higher rate than non-basmati rice. With the change in life style, mindset and preferences of the people, the demand for packaged rice and rice bran oil is also growing. The proliferation of modern retailing has helped fuel the consumption of a higher quantum of branded products,

as Indian consumers are fast embracing the mall culture and organized retail. This offers an attractive channel for the Company to augment its branded sales of basmati rice in the domestic market. There is an immense opportunity unfolding for our company as more and more consumers are migrating from unbranded to branded rice and from economy brands to premium brands. The Company also stands to benefit immensely due to huge popularity and demand for Pusa 1121 basmati.

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**Threats**

Downturn in the global economy adversely impacting export plans, growing competition from other companies operating in similar segment, the Government policies in relation to procurement of paddy/rice and their pricing for the Public Distribution System would likely to have impact on the company in as much as the rice industry in general. However, the large production capacity of the company including by-product processing, Large storage and warehousing, Company’s growing distribution networks both in the Export Markets and Branded Packaged Basmati Rice in Domestic Markets will mitigate potential risks to the Company.

**Expansion & Modernization by LEAF**

No major expansion/modernisation has been undertaken during the year.

**DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE SEGMENT-WISE/PRODUCT-WISE PERFORMANCE**

During the year ended 31st March, 2018, segments wise revenue of two business segments viz; Agri-based and Energy are as follows:

|                       |          |
|-----------------------|----------|
| Agri-based business:  | 5941.64  |
| Energy Division:      | 545.29   |
| Inter-segment revenue | (387.42) |
| Net Revenue           | 6099.51  |

Secondary Segment (Geographical)

(Rs.in millions)

|               | Agri-based | Energy |
|---------------|------------|--------|
| India         | 5499.29    | 534.14 |
| Deemed Export | 66.07      | -      |
| Rest of World | -          | -      |

The company is selling electricity/power to Punjab State Power Corporation Limited (PSPCL) as per PPA entered into for 20 years.

Rice continues to be the dominant product of our Company followed by other by-products like Rice Bran Oil and De-Oiled Cake.

**Break-up of Revenue from Operations**

| Revenue From Operations | Rs.in millions |
|-------------------------|----------------|
| - Food Grains           | 140.07         |
| - Traded Goods          | 5374.36        |
| - Power                 | 569.68         |
| - Rice Bran & Oil       | 5.97           |
| - Others                | 9.43           |
| <b>TOTAL</b>            | <b>6099.51</b> |

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### **OUTLOOK**

In last decade, the company has entered into branded and specially packaged rice in various varieties to target the all class of society including middle and lower middle class. The brand 'Lakshmi foods' has become synonym of quality and affordability. The company's major objective becomes food security with quality even to lowest class of society. To strengthen its performance, positioning and profitability in the competitive Basmati and rice industry, the Company intends to scale up capacity utilization, enhance margins by deriving higher realizations from by products; optimizing power consumption through its captive husk-based power plant, explore and add new emerging and fast growing markets in the international space to derive exports revenues.

### **RISKS & CONCERNS**

Supply of food grains is affected by many external factors such as climatic conditions and the current harvesting or peak season. Bumper crops pull down prices while poor production reflects in high prices. Besides this, economic slowdown and government policies/regulations play a significant role in determining prices and demand for the food grains. A substantial portion of our revenues come from exports to the overseas markets. Any change in the socio-economic environment in those markets may impact our business. Rice being a primary staple in the country, any change in government policies to export and any adverse fluctuation in the exchange rate may also impact our business and profitability.

### **RISK MITIGATION**

The Company maintains a healthy stock to ensure continuous paddy production and supply. Moreover, in a short supply situation the yield goes up with rising prices and sets off the impact of fall in stocks to some extent. Our strategy of evenly balancing the revenue mix between exports and domestic sales is also aimed at mitigating the export risk in adverse times. We also regularly undertake several initiatives to penetrate in new geographies. We have countered the risk of increasing competition in the domestic market, by increasing operations in the premium branded rice segment to middle level requirements. In order to understand the fast changing and evolving expectations of consumers from our brand, we will continue to make significant investments towards tracking consumer's behavior and respond with their expectations from the brand. The Company's business is also exposed to other operating risks, which are mitigated through regular monitoring and corrective actions.

### **INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

The Company has a proper and adequate system of internal controls. This ensures that all assets are safeguarded and protected against loss from unauthorized use or disposition and those transactions are authorized, recorded and reported correctly. An extensive programme of internal audits and management reviews supplements the process of internal control. Properly documented policies, guidelines and procedures are laid down for this purpose. The internal control system has been designed to ensure that the financial and other records are reliable for preparing financial and other statements and for maintaining accountability of assets. The company is successfully running SAP ERP system. The Company has in place adequate internal financial controls with reference to financial statements. During the year, such controls were tested and no reportable material weakness in the design or operation was observed.

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

The Company's Human Resource philosophy is to identify the attitude, aptitude of each employee, provide motivation to them and place them in a position where they can contribute to the growth and performance of the Company to the best of their ability. The Company provides to the staff healthy environment and maintains cordial relations with the

employees. The company treats the people as the most valuable asset and has a system of performance appraisal and career development. Steps have also been undertaken towards manpower rationalization through multi task training and job rotation. As on 31st March, 2018, there are 187 employees are on the roll of the Company.

**POLLUTION AND ENVIRONMENT CONTROL**

The Company continues to be compliant with applicable environment laws and regulations. The Company is generating power from biomass waste and is keeping the environment clean through control of pollutants.

Safety and health of people working in and around the premises of the Company continues to receive the highest importance from the management. Employees are continuously trained and coached in safety and are provided appropriate safety equipments.

**CAUTIONARY STATEMENT**

*Statements in the Management Discussion and Analysis describing the Company's objective, projections, estimates, expectations may be "forward-looking statements" within the meaning of applicable laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates / would operate, changes in the Government regulations, tax laws and other statutes and other incidental factors.*

**For and on Behalf of the Board**

**Place: Khamanon  
Date: 31-10-2018**



Sd/-  
**Balbir Singh Uppal**  
**Chairman and Managing Director**  
**DIN: 00064718**