MANAGEMENT DISCUSSION AND ANALYSIS

INDIAN ECONOMIC OVERVIEW

India has emerged as the fastest growing major economy in the world as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF). According to the Economic Survey 2015-16, the Indian economy will continue to grow more than 7 per cent in 2016-17.

The improvement in India's economic fundamentals has accelerated in the year 2015 with the combined impact of strong government reforms, RBI's inflation focus supported by benign global commodity prices.

India was ranked the highest, globally in terms of consumer confidence during October-December quarter of 2015, continuing its earlier trend of being ranked the highest during first three quarters of 2015, as per the global consumer confidence index created by Nielsen.

MARKETS SIZE

According to IMF World Economic Outlook Update (January 2016), Indian economy is expected to grow at 7 - 7.75 per cent during FY 2016-17, despite the uncertainties in the global market. The Economic Survey 2015-16 had forecasted that the Indian economy will be growing by more than seven per cent for the third successive year 2016-17 and can start growing at eight per cent or more in next two years.

Foreign direct investment (FDI) in India have increased by 29 per cent during October 2014-December 2015 period post the launch of Make in India campaign, compared to the 15-month period before the launch.

The Nikkei/Market Manufacturing Purchasing Managers' Index (PMI) for February 2016 was reported at 51.1, indicating expansion in Indian manufacturing activity for a second month in a row, as both domestic and foreign demand increased due to lower prices.

The steps taken by the government in recent times have shown positive results as India's gross domestic product (GDP), registering a growth rate of 7.6 per cent. The economic activities which witnessed significant growth were 'financing, insurance, real estate and business services' at 11.5 per cent and 'trade, hotels, transport, communication services' at 10.7 per cent.

According to a Goldman Sachs report released in September 2015, India could grow at a potential 8 per cent on average during fiscal 2016 to 2020 powered by greater access to banking, technology adoption, urbanization and other structural reforms.

RECENT DEVELOPMENTS

With the improvement in the economic scenario, there have been various investments leading to increased M&A activity. Some of them are as follows:

India has emerged as one of the strongest performers with respect to deals across the world in terms of Mergers and Acquisitions (M&A). The total transaction value of M&A involving Indian companies stood at US$ 26.3 billion with 930 deals in 2015 as against US$ 29.4 billion involving 870 deals in 2014. In the M&A space, Telecom was the dominant sector, amounting to 40 per cent of the total transaction value. Also, Private equity (PE) investments increased 86 per cent y-o-y to US$ 1.43 billion.

Total private equity (PE) investments in India for 2015 reached a record high of US$ 19.5 billion through 159 deals, according to the PwC MoneyTree India report.

According to The World Bank, India's per capita income is expected to cross Rs 100,000 (US$ 1,505.4) in FY 2017 from Rs 93,231 (US$ 1,403.5) in FY 2016.

GOVERNMENT INITIATIVES

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like Make in India and Digital India. India has launched the Make in India initiative with an aim to boost the manufacturing sector of Indian economy. This initiative is expected to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy. The government is looking at a number of reforms and resolution of pending tax disputes to attract investments.

Currently, the manufacturing sector in India contributes over 15 per cent of the GDP. The Government of India, under the Make in India initiative, is trying to give boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP.

Based on the recommendations of the Foreign Investment Promotion Board (FIPB), FDI inflows have increased 40 per cent during April-December 2015 to reach US$ 29.44 billion.

The Government of India has launched an initiative to create 100 smart cities as well as Atal Mission for Rejuvenation and Urban Transformation (AMRUT) for 500 cities with an outlay of Rs 48,000 crore (US$ 7.16 billion) and Rs 50,000 crore (US$ 7.46 billion) respectively. Smart cities are satellite towns of larger cities which will consist of modern infrastructure and will be digitally connected.

OVERVIEW OF INDIAN EDIBLE OIL INDUSTRY

India plays an important role in the global edible oil market, accounting for 10-12% share of consumption; 6-8% share of oilseed production; 4-6% share of edible oil production, and 12-14% share of world edible oil imports for FY15. Furthermore, the industry is highly dependent on availability of raw material, domestic production of oil seeds, annual rainfall, global price fluctuations and consumer preferences. Availability of edible oil in India has shown a compound annual growth rate (CAGR) of 7.32% during OY 06- OY 15 with y-o-y growth of 8.02% in OY15 over O14, whereas the growth in population has remained at CAGR of 1.29% during 2006-2015. Majority of the demand supply gap of edible oil in India is being filled through imports.

The growth in production of domestic edible oil has not been able to keep pace with the growth of consumption. Thus, this gap is being met by the imports that account for almost 55-65% of the total oil consumption during past five years. Continuous increase in the gap between demand and supply of edible oil has forced India to do huge import from leading exporter countries of edible oil. The demand supply gap is becoming wider mainly due to limited availability of oil seeds, shifting of acreage to other crops and increase in demand of edible oil.

More than 14 million tonnes of edible oil was imported with a total value of Rs.64,396.49 crore during FY15. In terms of volumes, crude edible oil contributes about 89% and refined oil contributes about 11% of the total import during FY15. Of the 89% of imported crude edible oil, palm oil, soybean oil and sunflower oil contributes about 54%, 21% and 11%, respectively. India is importing edible oil from Indonesia, Malaysia, Argentina and Ukraine contributing about 36%, 23%, 17% and 13%, respectively, of total imports.

Demand of edible oil is mainly driven by increase in per capita consumption of edible oil, rising income levels and improvement of living standards. However, the Indian edible oil market continues to be underpenetrated as current per capita consumption level of India (at 14.4 Kg/year for 2014-15) is much lower than global averages (24 kg/year). Furthermore, domestic consumption of edible oil is expected to increase with enhancement in income level and population.

INTERVENTION OF GOVERNMENT TO TACKLE IMPORT OF EDIBLE OIL

Government of India is promoting National Mission on Oilseeds and Oil Palm (NMOOP) during 2012-17 to achieve objectives such as increasing Seed Replacement Ratio (SRR) in oil crops with focus on Varietal Replacement, increasing irrigation coverage under oilseeds from 26% to 36%, diversification of area from low yielding cereals crops to oilseeds crops, inter-cropping of oilseeds with cereals/ pulses/ sugarcane, use of fallow land after paddy/potato cultivation, expansion of cultivation of Oil Palm and tree borne oilseeds in watersheds and wastelands, increasing availability of quality planting material enhancing procurement of oilseeds and collection, and processing of tree borne oilseeds.

CONCLUSION

Indian Edible oil Industry has witnessed financial stress due to droughts, rising production costs and cheaper imports thus forcing several small firms to shut shop. India imports nearly 67% of its edible oil requirements; the rest is being met from domestic production. Area expansion under palm oil fell by over 50% over the last couple of years due to low prices of crude palm oil and poor rainfall. Though the duty differential between crude and refined palm oil is 7.5%, edible oil sellers are finding it more convenient to import refined palm oil directly from Malaysia and Indonesia and sell it in the domestic market thus placing the edible oil processing units to operate at hair line margins or in worst case scenario wherein the units are small the operations have become unvailable. The performance of the companies in edible oil sector for medium term period will depend upon the demand of CPO in India post recent increase in import duties on refined edible oils, movement of domestic edible oil prices, performance of Indian Rupee against US Dollar, anticipated sales volumes and profitability margins from the specialty fats business with comprehensive product range including bakery shortening's, chocolate & confectionary fats, ice cream fats and a range of cooking oils.

OUTLOOK FOR K S OILS

Due to the high debt and liquidity crunch, the Company currently not operating its plants. The management of the Company is under process to settle its debts with the lenders and the Company believes that once the liquidity crisis is over the company will be able to regain its past glory. The company's earnest efforts to locate potential investors have since yielded positive responses from various investors whereby the Company have submitted viable proposals to the lenders for its revival and the same is said to be under their active consideration.

K S Oils ltd continue to focus towards building brands in the edible oil sector which are India- centric and deliver quality, purity and convenience along with the trust of Kalash brand name. Going ahead, the company will be working towards a clear-cut three-pronged program:

- Increased market share and building brand premium across product categories
- Focus to create cost leadership at procurement and manufacturing levels
- Profitable and Inclusive Growth

PRODUCTION AND R&D

Our five state-of-the-art manufacturing plants are often best in technology, design and efficiency parameters conforming to stringent quality and hygiene standards as per international manufacturing standards. The mechanized plants need least human intervention and are run on computer controlled panels requiring minimal man power. This not only saves employee cost by 60% but also ensures minimum human intervention for optimum quality standards. Efficient use of machinery and layout make sure that each plant consumes minimum energy, reduces waste and recycles inputs like water and other wastes. The plants are environment friendly and assure sustainable and green production methods.

The new plants are built on a technology permit product flexibility at any given time; production can be switched between any three edible oilseeds – mustard, soybean and sunflower. This will give real time and dynamic planning capability to the production team based on market demand. Such Just-in-time (JIT) manufacturing is a first in the Indian edible oil industry, saving on over capacity and higher costs for maintaining inventory.

OPPORTUNITIES AND THREATS (SWOT ANALYSIS)

The biggest strength of K S Oils is its integrated business model, which is scalable to global size. A conscious focus on backward and forward integration so as to address the complete value chain is ensuring K S Oils ability to de-risk external factors like raw material supply & prices and conduct sales with high per unit profit realization. The branding led FMCG focus of the company is helping it consolidate as a leader within the minds of the consumers.

Our business sector is vulnerable to external factors viz nature related and driven by international developments. Thus, we are dependent on vagaries of weather which determines size of oil seed crops, and international edible oil prices. Freight and transportation cost is another challenge.

The biggest opportunity is the consolidation that is taking place in the edible oil industry. The retail led demand and higher consumer spending and buying power is a trend that will help branded players like us in getting premium price of our products by delivering superior quality. The trend of palm oil consumption increasing in India is a head start for our backward integration in sync palm production. Favorable government policies will ensure that the organized edible oil industry grows significantly.

We face threats of competition from other players raising capacity and MNCs entering this sector. A macro threat is that of vegetable oils being diverted for non-food production like bio-fuel and other alternate energy. Fluctuations in crude oil prices and volatility in international prices are the other sources of concern.

SEGMENT-WISE PERFORMANCE

The various segments and products are identified by the company are as follows:

Solvent – Seed / Solvent extraction, crude Mustard Oil, Refined oils and Deoiled cake, Vanaspati – Vanaspati Ghee, Power – Power Generation (wind mills).

The detailed performance segment wise is given in the Consolidated Balance Sheet Note to the audited accounts of the company, provided in the Annual Report.

DISCUSSION ON FINANCIAL PERFORMANCE

The Income from Operations recorded a decrease of 66.25% to Rs. 2,444/- Lacs as compared to Rs. 7,246/- Lacs in 2014-15. Your Company recorded a Profit/(Loss) after tax of Rs. (14,934) lacs in 2015-16 as against Loss of Rs. (22,987) Lacs during preceding Financial Year.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES/ INDUSTRIAL RELATIONS, INCLUDING NUMBER OF PEOPLE EMPLOYED

K S Oils management put utmost efforts to strengthen the existing workforce and retaining them to enhance the Human Resource Capabilities in the Company. As a result of CDR process and slow down in the business some of company's key personnel have left. Thus, K S Oils is creating a collaborative and innovation-driven work culture to attract, retain and develop the best talent in the industry.

CAUTIONARY STATEMENT

Statements made in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be "Forward-looking statements" within the meaning of applicable securities laws and regulations. Actual result could differ 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 the company operates, changes in Government Regulations, tax laws and other statutes and other incidental factors.

By the Order of the Board of Directors

For **K. S. Oils Limited**

Ramesh Chand Garg	Davesh Agarwal
Managing Director	Executive Director & CFO
DIN: 00027025	DIN : 01102237

Date : October 14, 2016
Place : New Delhi