

MANAGEMENT DISCUSSION ANALYSIS REPORT

GLOBAL OVERVIEW :

Castor oil is a vegetable oil obtained by pressing the seeds of the castor oil plant. Castor oil is one of the most multipurpose plant oils, obtained by pressing the seed of the castor oil plant (*Ricinus communis*). It is well known source of a monounsaturated, ricinoleic and 18-carbon fatty acid. Owing to its unique chemical structure and rich properties, castor oil and its derivatives find uses in many industries such as cosmetics, food, lubricants, paints, agriculture, electronics & telecommunications, pharmaceuticals, perfumeries, plastics and rubber, inks & adhesives and textile chemicals. After plant oil, castor oil is considered as the most required oil. However, growing concerns pertaining to bio fuels specially bio diesel and bio polymer across the globe is pushing castor oil to play a much larger role in the world economy.

India, being the single largest producer of castor seed in the world, is likely to witness a decline in the crop output after the farmers shifted to other remunerative crops during the kharif of 2017. The total castor acreage fell by more than 24% in 2017-18 in comparison to that of the previous year. In Gujarat, the largest producer of castor seed, a drop of over 27% was recorded in the acreage with merely 5.65 Lakh hectares being sown.

The castor oil imports by China continue to edge higher. In 2017, the net volume of imports rose by 13% in comparison to the previous year. The year 2016 witnessed a rise of over 31% in the volume of imports, after a drop of 25% during the previous year. Overall, the import is likely to upscale in the days to come, considering the growth of the economy and the demand from the processing industries.

INDUSTRY OVERVIEW:

Growth of major end-use industries (includes lubricants, cosmetics and pharmaceuticals) and increasing demand for sustainable products & biodegradable, on account of reducing dependence on petrochemicals is anticipated to fuel the demand for castor oil derivatives market. Also regulatory support and rising prices of alternative renewable chemicals is expected to drive the global castor oil derivatives market. However, factors influencing its manufacturing cost include raw material availability, weather uncertainties, shortage of working capital, techniques & methods used for extraction and availability of substitute oil are resulting in restraints for the castor oil derivative market.

However, factors influencing its manufacturing cost include raw material availability, weather uncertainties, shortage of working capital, techniques & methods used for extraction and availability of substitute oil are resulting in restraints for the castor oil derivative market. Yield of the crops depends highly on the climatic condition and the harvesting process take more than six months, resulting in uncertain supply of the crops.

CURRENT BUSINESS REVIEW:

KGN Enterprises Limited is listed on BSE Limited and Metropolitan Stock Exchange of India Limited. The Company is an agro based industry catering to increasing demand of castor oil & its derivatives in national as well as international market. The plant is well equipped with all novel and sophisticated equipments and infrastructure supported by a team of technical experts. The company has enough infrastructure facilities like, silos, crushing plant, refinery, huge interim & final storage capacity, own laboratory for research & development, Weigh Bridge which strengthens the company to work at an optimum level.

FUTURE OUTLOOK :

The long term demand outlook for your Company's products remains positive. With the price of castor oil falling and the crude oil prices improving the near term prospects look better than the previous year. Emphasis on green co-friendly products is likely to lead to increase in innovation of new products and uses of castor oil by the chemical industry.

The Company is regularly doing research and analysis for better quality control and cost effective solutions.

OPPORTUNITIES THREATS RISKS AND CONCERNS:

- Environment being a major concern, these arch for green products is likely to intensify in the future.
- Castor Oil being a natural, organic, renewable and bio-degradable product is gaining importance as a green product. With improved irrigation, better quality in puts and scientific farming there is a substantial scope to improve yields per hectare of castors seeds.
- Besides due to its unique chemical structure, it finds myriad applications in virtually every industry be it agriculture, lubricants, paints, inks, surface coatings, pharmaceuticals, food, engineering plastics, cosmetics, perfumeries, electrical, rubber and soon.
- Your company continues to endeavor to tap these opportunities by focusing on Research & Development and investing in new capacities, new technologies, new applications, and new products.

- Castor Seeds continue to beavolatile raw material in terms of its price.
- Being an agricultural product, it depends on the rainfall and weather conditions prevailing in the area of castor growing States in the country, though it is a sturdy crop. The limited size of the crop makes it susceptible to speculation and wild gyration inprices.
- To mitigate the effect of uncertain weather, the Company has laid down parameters for inventory management. The Company has proper mechanism in place to immediately respond to any unfore seen eventuality.
- Castor oil and its derivatives have applications in the manufacturing of soaps, lubricants, hydraulic and brake fluids, paints, dyes, coatings, inks, cold resistant plastics, waxes and polishes, nylon, pharmaceuticals and perfumes. So there are tremendous opportunities in this sector.
- Much higher thrust on research & development is required for proper quality control.
- Foreign exchange fluctuation and volatility in prices can affect the margin of export.
- Castor seed is a seasonal product for which cycle usually starts from January to June, stock of the same if not maintained in other 6 months can affectthe company.
- Availability of castor seeds depends on the weather condition in the area of castor growing states in thecountry.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES:

Company is in planning to appoint more qualified and experienced employees to upgrade the quality and overall performance of the Company.

RISKS & CONCERNS:

The Company's products are used across geographies in a variety of industries, thereby to a great extent, mitigating the risks associated with demand for its products on a long-term basis.

PROOF:

The price behavior of raw material depends on the weather pattern in the castor growing regions, monsoon in these regions, global demand and inventory, and prices of other oils, agricultural products and including Crude Oil and therefore can be volatile as well as unpredictable.

The Company is closely watching the development of factors affecting the castor seed prices. The Company restricts its exposure to the price fluctuation of raw materials by limiting its unhedged exposure.

With the business of the Company growing steadily and demand for trained and experienced manpower in excess of the supply, the risk of managing the people is very big. The Company has to retain its existing trained workforce and also attract new talent for its different operations. To improve the performance of the staff at work; various refresher training courses are organized to update their knowledge with the latest technologies and management ideas.

CAUTIONARY STATEMENT:

Statements in this report on Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable laws or regulations. These statements are based on certain assumptions and reasonable expectation of future events. Actual results could, however differ materially from those expressed or implied. Important factors that could make a difference to the Company's Operations include global and domestic demand – supply condition, finished goods prices, raw materials cost & availability, changes in Government regulations and tax structure, economic developments within India and the countries with which the Company should and need not be held responsible, if, which is not unlikely, the future turns out to be something quite different. Subject to this management disclaimer, this discussion and analysis should be pursued.

**By Order of the Directors of the
KGN ENTERPRISES LIMITED**

**Date: 26/05/2018
Place: Mumbai**

**BABULAL HIRANI
MANAGING DIRECTOR
DIN: 02362983**