



Management Discussion and Analysis

Economic Review

Global Economy

The global economy witnessed a broad-based slowdown during Calendar Year (CY) 2019, delivering a gross domestic product (GDP) growth of 2.9%, lower than 3.6% in CY 2018. The subdued growth has been primarily attributed to elevated trade tensions between the United States and China, geopolitical uncertainties around Brexit, weather-related disasters in Australia, and country-specific shocks in the emerging economies that weighed on consumption demand. The slowdown was further aggravated by the outbreak of the Novel Coronavirus (COVID-19) pandemic that hit the globe towards the end of CY 2019. It forced major economies to impose stringent lockdowns in their countries to curb the spread of the virus, severely impacting global business and economic activities. To revive the economic growth, the governments and central banks across the world have announced sizable fiscal and monetary stimulus and relief packages.

Source: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOupdateJune2020>

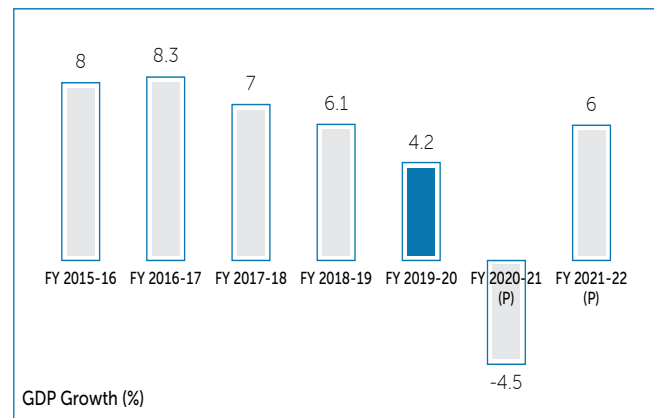
The International Monetary Fund (IMF) has projected global economic growth to decline by 4.9% in CY 2020, considering the higher-than-anticipated negative impact of the COVID-19 in the first half of CY 2020. However, it has projected the global economy to recover in CY 2021 and deliver growth of 5.4%, provided the virus is successfully contained and global business activities resume to pre-COVID levels.

Indian Economy

In line with global slowdown and internal factors, the Indian economy registered a lower GDP growth of 4.2% in FY 2019-20, against 6.1% in FY 2018-19. As per the 'Economic Survey Report 2020', the growth rate in agriculture and allied

sectors in FY 2019-20 remained stagnated at 2.9%, impacting farmers' income levels and raising rural unemployment rates. This, coupled with constrained lending conditions, resulted in a sharp contraction in rural consumption demand. On the supply side, fresh private investments slowed down in the backdrop of low capacity utilization, weakening corporate profits, and infrastructure bottlenecks, weighing on investor sentiments.

India's GDP Growth (%)



Source: International Monetary Fund, P: Projected

To trigger the country's languishing economic activity, the Government announced several progressive initiatives during the year. These included liberalizing sectors to attract foreign direct investments, upfront capital infusion in the public banking system to ease out liquidity strain, and reducing corporate tax rates to revive private investments. However, the COVID-19 outbreak towards the fag-end of FY 2019-20 disrupted the country's manufacturing activity, supply chains, and logistics and posed severe health and economic crisis.

Amidst these testing times, the government has launched 'Atmanirbhar Bharat' movement through which it announced ₹ 20 lakh crore stimulus package to tackle the pandemic. It includes a host of relief packages to the marginalized population, farmers, and health workers and provides significant liquidity to banking and micro, small, and medium enterprises (MSMEs) sectors. The Reserve Bank of India (RBI) had earlier reduced repo and reverse repo rate to 5.15% and 4.9% respectively by February 2020 in an attempt to revamp the country's growth momentum back to its earlier growth trajectory. Furthermore, it maintained an accommodative stance during the pandemic breakout as well and brought repo and reverse repo rates down to 4% and 3.75% respectively. While the repo rate of 4% will encourage banks to lend to critical sectors of the economy, the reverse repo rate at 3.75% will discourage them from parking the funds back with the central bank.

Outlook

Factoring in the impact of COVID-19 and anticipating a slow economic recovery, the IMF projects the country's GDP to decline by 4.5% in FY 2020-21. However, it projects a growth of 6% in FY 2021-22, considering a gradual unwinding of nationwide lockdown, strong policy support of the government, and favorable international crude oil prices.

The agriculture sector is expected to deliver an encouraging growth in FY 2020-21, with the forecast of a normal monsoon in CY 2020 at 102% of the long-period average (LPA). This will be well complemented by the government's landmark reforms to de-regularize and liberalize the agriculture sector which will significantly improve the rural economy of the country. Additionally, the government's pro-farmer initiatives such as the Pradhan Mantri Kisan Maan Dhan Yojana (PM-KMY), Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), and the Direct Cash Benefit Transfer will enable it to double farmers' income by FY 2022 and will further boost India's GDP.

Industry Overview

Agriculture Sector

India's agriculture continues to be the largest source of livelihood for about 58% of the country's population, even as its contribution to the Gross Value Added (GVA) is consistently declining. In FY 2019-20, GVA by agriculture, forestry and fishing cumulatively registered a growth of 4% and was estimated to be ~₹ 19.48 trillion, as against ₹ 18.55 trillion in FY 2019.

Recognizing its role in achieving inclusive economic development of the country, the government has been proactively providing growth impetus to the agricultural sector. It announced several pro-farmer initiatives during

the year such as PM KUSUM scheme, funding for efficient warehouses, and strengthening national cold and perishable supply chains to aid farmers' income.

Growing contribution of the livestock sector

The livestock industry, allied to the agricultural sector, plays an important role in the socio-economic development of India's rural economy. It contributes ~6% to the country's GDP and ~25% to the agricultural GDP. The industry stands second largest globally in terms of livestock population which stood at 192.49 million in 2019 and exhibited a year-on-year growth of 0.8%. It has been increasingly contributing more to the agricultural GDP on account of the growing demand for livestock products in proportion to the rapidly growing population, urbanization, and income levels in the country. Considering its potential in enhancing farmers' incomes, the government has been undertaking various schemes and initiatives to promote higher and healthier development of livestock. These include the National Livestock Mission (NLM), Rashtriya Pashudhan Vikas Yojana, and the Dairy Processing and Infrastructure Development Fund, among others.

Animal Feed Industry

India's animal feed industry is one of the largest in the world and was valued at ₹ 400.5 billion in 2018. Animal feed, which primarily includes poultry, cattle, and aqua feed, plays a critical role in maintaining the overall health of animals and improving the yield and quality of various end-products such as eggs, meat and milk. The traditional feed primarily includes various raw, processed and semi-processed products such as pasture grasses, cereal grains, as well as by-products of certain food crops. However, with rising farmer awareness, the industry is witnessing an increasing adoption of modern and highly-nutritional animal feed products to achieve superior dairy and meat yield. Furthermore, the government initiatives such as Animal Husbandry Infrastructure Development Fund and Dairy Infrastructure Development Fund (DIDF) is incentivizing increasing capital investments by private players in the industry, providing ample growth opportunities in the long term.

Cattle Feed market

India is the world's leading milk producer and possesses one of the largest cattle stock in the world. Backed by the government's ambitious plan to double its milk-producing capacity by 2025, the industry for cattle livestock is expected to grow significantly in the coming years. This also triggers increased demand for nutritious cattle feed for better yielding cows. Additionally, with the increasing shift in food requirement from carbohydrates to protein, demand for animal protein has surged in India and abroad. This, coupled with shrinkage of open land for cattle grazing, shortage of conventionally used feeds, and new-generation high-yield



breeds present the need for a specialized feed and have created significant growth potential for the industry.

Total Mix Ration (TMR)

Total Mix Ration (TMR) is nutritionally dense animal feed produced by homogenizing mixture of good quality forages, grains, conventional feed concentrates, protein supplements, vitamins, and minerals. It ensures nutrient-balanced ration to the animals in each bite, enhancing their health while facilitating farmers in achieving superior yield. Furthermore, by scientifically and judiciously utilizing crop residues, agri by-products and conventional feed concentrates, TMR supports farmers in cultivating and sustaining livestock farming economically.

Some of the prime benefits of using TMR include:

- Increasing yield and quality of milk and meat, providing farmers with higher revenue generation opportunities
- Improving cattle fertility and reproduction activity and ensuring good health and overall physical condition of animals
- Reducing labor costs due to lower workload of feeding, thereby supporting farmers in achieving better profitability
- Facilitating feeding of exact amounts of nutrient requirements through completely blended feeds ensuring optimum utilization of feed resources
- Facilitating customized and controlled feeding, depending on cows' particular stage of lactation and level of milk yield, resulting in the more productive use of feed resources

With rising urbanization, decreased allocation of land for fodder, and rising demand for dairy and meat products, increasing yield per animal has become imperative. However, with a lack of awareness of TMR's benefits, its penetration in the country stands lower than the global averages. Incidentally, lower consumption levels, rising farmer awareness, the rising dominance of organized dairy sector, and the government's supportive policy measures to increase milk productivity are expected to create higher and sustained demand for TMR products moving ahead.

Key growth drivers of the cattle industry

India being an agrarian economy

The agriculture sector engages ~70% of India's rural population. Livestock farming is its important allied industry, which facilitates superior income generation. This positively influences farmers as they are increasingly focusing on

cultivating more livestock, triggering demand for animal feed products.

Increasing per capita dairy and meat consumption

India's increasing population and income levels, coupled with improved health consciousness and willingness to pay more for nutritionally rich products, have been shifting the dietary habits of the inhabitants. This is resulting in a rising per capita consumption of dairy and meat products, and paving the way for the growth of superior quality and nutritionally dense animal feed to increase yield per animal.

Rising farmer awareness about cattle health

Backed by the government and private institutions' awareness programs, farmers are increasingly adopting better feed practices. They are preferring balanced and nutritional feed over traditional fodder to achieve higher and sustainable milk yield while maintaining the health of the animals.

Government support and initiatives

The government is aiming to achieve enhanced livestock production. It has launched an Animal Husbandry Infrastructure Development Fund of ₹ 15,000 crore, National Animal Disease Control Programme, and subvention of up to 3% to private players for setting up of dairy, poultry and meat processing units. Furthermore, it has developed an e-Pashu Haat portal and extended livestock insurance to encourage more livestock breeding. This presents an important growth driver for the feed industry.

Increasing overseas demand

India with its geographic location and abundant livestock has become one of the leading meat exporters in the world. The demand for Indian buffalo meat in the international market has sparked in recent years, encouraging higher buffalo production. In addition, the government is boosting dairy and meat exports from the country which is incentivizing farmers to increase yield by adopting superior animal feed.

A shift from unorganized to organized

Organized players in the animal feed market are increasingly leveraging research-driven, modern, and sophisticated methods to manufacture compound cattle feed. This is manufactured by blending suitable feed ingredients and is a palatable source of nutrients for growing, adult, and milk-producing animals. With the added benefit of optimized cost of milk production and superior profitability, farmers increasingly prefer compound cattle feed over age-old feeding products.

Furthermore, the organized players are manufacturing branding packaged feed products that provide several benefits such as improved nutrition, hygiene, quality, and convenience

to handle. These efforts are yielding good results as the industry witnesses a structural shift from the fragmented and unorganized players to the organized market.

Outlook

The animal feed industry enjoys structural growth drivers such as rising prominence of the livestock industry in the overall agriculture sector, increasing demand for better quality dairy products and meat, and government's support to increase livestock production. In the backdrop of these attributes, the industry is well poised to grow at an estimated rate of 14.3% compounded during FY 2019-24 to reach ₹ 898.5 billion by 2024, as per the report by Research and Markets.

Company Overview

Prabhat Dairy Limited (the Company) is one of the leading providers of animal feed solutions and sells its products under the Annapurna brand. It focuses on compound cattle feed and supplies formulated Total Mix Ration (TMR) products and services to dairy farmers. These products play a critical role in improving animal health, enhancing milk production yield, and its nutritional value, which enables the farmers to earn superior incomes.

The Company also provides advisory services in animal husbandry and has extended its scope of operations to breed development and artificial insemination programs and ensures breeding of healthier and superior yielding livestock.

Product portfolio and Service offerings

Total Mix Ration TMR

The Company supplies in-house TMR range of products to farmers. Additionally, it rents TMR machines in the regions of Solapur, Pune and Ahmednagar. These machines convert local feedstock into TMR and aid farmers in achieving higher milk yield.

Extension Services

The Company provides advisory services to co-operative and private dairy farmers to improve their understanding of modern feed practices and achieve superior livestock production. This includes artificial insemination services and yield enhancement through the use of suitable feed products. This assists farmers in generating higher income by cultivating better yielding livestock while maintaining their health.

Breed Development and Nutrition Program

The Company has initiated a breed development and nutrition program under the name 'Calf Nutrition Project' / 'Lakh Molachi Kalvat' (which means a calf having the potential to provide significant value). The program facilitates farmers in breeding a healthy calf through artificial insemination

services, thereby enabling him to avoid the purchase of an expensive animal and achieve save on cost. The Company further provides high-quality cattle feed to improve health and yield of the livestock born under the program.

Artificial Insemination

During the year, the Company started its Artificial Insemination program which has been implemented in the regions of Solapur, Pune, and Ahmednagar on the livestock owned by ~10,000 farmers. The Company has a highly qualified artificial insemination team and veterinary doctors who ensure superior yield potential of the next generation breed. The company has also tied-up with leading organizations for semen supply and has built high-tech modules to capture relevant data regarding the breeding activity. The Company also provides high-quality animal feed in the early stages of newborn calves to improve their health and ensure them to achieve the better yield, when they enter the milking stage.

Strengths and Opportunities

Key Strengths of the Company

- High-quality and value-added products
- Expertise in breeding and artificial insemination procedures, backed by a highly qualified team of veterinary doctors and nutritionists
- A wide customer base of dairy farmers and a strong customer connect developed over the years
- Focus on deepening sales and distribution network

Future Growth Opportunities

- Growing addressable market with rising preference to nutritional dairy products, triggering demand for superior and compound cattle feed
- Increasing demand for higher yield animals, and subsequently nourishing animal feed, due to declining grazing lands
- Increased focus of farmers on sustaining animal health, along with achieving superior yield, by adopting balanced nutrition and advanced cattle feed
- Rising demand for animal feed in the export markets

Financial Overview

The Company's financial performance has been deliberated in the Directors' Report.

Key financial ratios as per SEBI's notification regarding Listing Obligations and Disclosure Requirements (Amendment) Regulations, 2018.



Key financial ratios (Standalone)

Particulars	FY 2019-20	FY 2018-19
Debtors Turnover (in Days)	68.59	2.56
Inventory Turnover (in Days)	0.60	1.32
Interest Coverage Ratio	-	-
Current Ratio	1.27	1.73
Debt to Equity Ratio	-	-
Operating Profit Margin (%)	-23%	4%
Net Profit Margin (%)	-24.4%	2.60%

Threats, Risks & Concerns

The Company faces internal as well as external risks that may materially impact its operational and financial performance. It has established a robust and comprehensive risk management framework that identifies and regularly monitors these risks and initiates prompt mitigating measures as deemed necessary. This helps the Company in maintaining the smooth flow of its operational activities, executing growth strategies, and safeguarding its profitability. A few of the risks and the mitigating measures are articulated below:

a. Unfavorable impact of weather and climate changes

Extreme weather conditions such as drought, flood and other natural disasters may materially impact income levels of the Company’s end consumers. This may force them to defer buying the Company’s products and other services and may curtail its revenue growth significantly. Additionally, natural disasters may also disrupt the quality of the raw material and its availability at competitive rates, impacting the Company’s profitability.

Mitigation Strategy

Over the last two decades, the company has firmly established its roots with the farmer communities by providing the best quality products and proactive farmer support through various programs. This has earned the Company significant farmer trust and goodwill which provide resilience to its business operations. This coupled with geographical diversification helps the Company in mitigating the impact of natural disasters to a certain extent.

b. Raw material risk

The Company’s cattle feed products are manufactured by blending multiple nutritious concentrates. Hence, the steady supply of key raw materials in adequate quantities, quality, and at competitive costs is imperative. However, factors beyond the Company’s control such as broad-based economic

slowdown, lower farmer income, lower market demand, and unfavorable logistics costs may materially influence price, quality, and availability of the raw material, impacting the Company’s operational and financial performance.

Mitigation Strategy

The Company has established an extensive network of suppliers by leveraging its deep connect with the farmers, ensuring diversified sourcing of key raw materials. Furthermore, the Company facilitates farmers in converting their local feedstock to TMR by renting out processing machines at farm location itself. This further lowers its raw material risk.

c. Increasing competitive intensity

The animal feed industry continues to be largely unorganized and fragmented with low levels of regulatory control, lower deployment of technology and lower capital requirement. Owing to these factors, the Company operates in an industry exhibiting low entry barriers and thus faces the threat of new entrants and risk of intense competition.

Mitigation Strategy

The Company has developed and nurtured long-standing relationships with a huge base of dairy farmers by supplying high-value products and services for more than two decades. Secondly, it has established an extensive supply chain and distribution reach which is not easy to replicate. Thirdly, the Company continues to invest in developing modern, advanced, and innovative products by leveraging its technological prowess and sophisticated manufacturing capacities. These attributes cumulatively provide a distinctive competitive edge to the Company and assist in staving off competition to a large extent.

Material Developments in Human Resources / Industrial Relations Front, including Number of People Employed

The Company acknowledges the importance of a critical role that human resources play in successfully executing its long-term business strategies and achieving its growth objectives. It provides a safe, conducive, and productive work environment and promotes growth opportunities based on meritocracy. This, in turn, helps it in superior talent acquisition and engagement, thereby building a strong and dedicated workforce. The Company’s employee-friendly HR policies ensure trust, transparency, and sense of teamwork amongst its employees while promoting a culture of innovation to stay relevant amidst the rapidly-evolving business environment.

The Company conducts multiple internal trainings and development workshops to enhance the skill set of its employees and to keep them upgraded with the latest information and technologies. To enhance employee productivity and efficiency, the Company provides performance-based rewards. It achieves superior engagement and retention levels by providing unbiased growth opportunities to employees doing excellent work and contributing significantly to the Company's long-term objectives. It also ensures equal access to these opportunities regardless of their gender, age, racial/ethnic background, religion or social status.

As on 31st March 2020, employee strength of the Company stood at 56.

Internal Control Systems and Their Adequacy

The Company has adequate and well-defined internal control systems in place for all its operational and financial functions. Its comprehensive documentation system ensures proper maintenance of accounting records, reliable

financial reporting, and compliance with applicable laws. Additionally, its well-defined authorization and approval procedures safeguard assets against any unauthorized use or disposition. The internal controls are reviewed periodically by internal auditors and the management team, ensuring timely compliance with regulations and accurate monitoring of its adequacy.

Cautionary Statement

The Management Discussion and Analysis contains statements describing the Company's objectives, projections, estimates and expectations, which may be forward-looking in nature. These statements are made within the meaning of applicable laws and regulations and are based on informed judgements and estimates. There cannot be any guarantee of previous performance continuity as future performance also involves risks and uncertainties. These may include but are not limited to the general market, macroeconomic, interest rates movements, competitive pressures, technological and legislative developments, and other key factors that may affect the Company's business and financial performance.

