

Management's Discussion and Analysis

CAVEAT

This section of the Annual Report has been included in adherence to the spirit enunciated in the code of Corporate Governance approved by the SEBI. Though utmost care has been taken to ensure that the opinions expressed by the Management herein contain its perceptions on most of the important trends having a material impact on the Company's operations, no representation is made that the following presents an exhaustive coverage on and of all issues related to the same. Further, the discussion following herein reflects the perceptions on major issues as on date and the opinions expressed here are subject to change without notice. The Company undertakes no obligation to publicly update or revise any of the opinions or statements expressed in this Report, consequent to new information, future event or otherwise.

Industry Overview

Global seafood production has grown by 1.40% in the year 2017 as per the report by Food and Agricultural Organisation (FAO) recording 174 MnMT in volume in the calendar year 2017. The production from aquaculture has grown by 4.5% during the year, clocking harvest of 84 MnMT, whereas the production from capture fisheries remained stable at 90 MnMT.

Global seafood consumption is continuing to increase at 1% per annum. The per capita consumption was 17.6 kg in 2006, which increased to 20.72 kg in 2017. As per FAO estimates, the global per capita seafood consumption will increase to 21.8 kg by 2025. The Report further identified that the seafood consumption in China, Middle East, East and South East Asia is increasing at a steady pace because of income growth and expansion of middle class.

India is well positioned to take advantage of an increase in global seafood consumption because of our long coast line, availability of raw materials and idle land available for taking up aquaculture on a large scale.

Total exports of seafood from India was 13.77 Lakh MT in 2017-18 as compared to 11.35 Lakh MT in 2016-17, reporting an increase of 21.32% in volume terms. In value terms, the exports were ₹ 45,107 Crore in 2017-18 as against ₹ 37,871 Crore in 2016-17, an increase of 19% in value terms .

Shrimp continues to be the back bone of Indian seafood exports and accounted for 41% in volume terms of total seafood exports from the country as against 38% in the previous year.

The total shrimp exports were around 5,66,000 MT in the year 2017-18 as compared to 4,34,000 MT in 2016-17 in volume terms. In value terms, the shrimp exports were ₹ 30,868 Crore as against ₹24,711 Crore in 2016-17.

The major export market has been the US followed by Europe, Japan and South East Asia during 2017-18 for shrimp

exports like in the previous year.

For 6 consecutive years from 2010-11 to 2017-18, the shrimp culture industry registered a CAGR of 23% on an average 1,51,465 MT in 2010-11 to 5,11,000 MT in 2017-18.

Strengths, Weakness, Opportunities and Threats

Strengths:

The Company has marked its presence in the field of aquaculture by engaging in manufacturing high-quality feed for shrimps, operating the Vannamei hatchery and processing and exporting shrimps. The Company also has a well-trained technical team to provide technical support to the farmers, assist them with information and knowledge of global standard aquaculture practices and also update developments in culture methods and processes. Presence of a strong dealership network, farmer base and committed work force stands in good stead for sustained growth of Company's business. Added to this, the Company has a strong technical and marketing tie-up with the THAI UNION Group of Thailand to strengthen its capabilities in the field of aquaculture. The global shrimp consumption is also expected to increase in future, assuring consistent market.

The expansion of the feed plant at Bandapuram, West Godavari District, Andhra Pradesh with an additional capacity of 1,75,000 MT per annum has commenced production from March 2018.

The Company has started the construction of 400 million shrimp seed hatcher at Village Gudivada, near Visakhapatnam, Andhra Pradesh for setting up 400 million shrimp seed hatcheries, which will be implemented in two phases of 200 million each. The commercial operations of the 1st phase of the project is scheduled in early 2019.

Weakness:

Although shrimp production has tripled in the past 7 years, the shrimp culture industry is continued to be concerned about inadequate infrastructure facilities, particularly inadequate power supply to aquaculture farms and inadequate cold store chain available for farmers to store their products. Though aquaculture is similar to produce agriculture in many aspects, the recognition of aquaculture on par with agriculture is evading the Government's approval in order to avail some of the benefits available to the agriculture sector, such as insurance.

Opportunities:

The seafood consumption is increasing all over the world as compared to other forms of meat. With its long coast line, India is ideally suited for development of the seafood industry. A planned development would provide abundant opportunities for the seafood industry. The successful adoption of Vannamei Species shrimp culture has to be replicated for other species of exportable fishes such as sea bass, krouper, red tilapia, halibut and crab for broad

basing the export basket and gaining recognition in the international market.

Threats:

The aquaculture activity is dependent on the unpredictable climatic conditions that differ from season to season. Natural calamities like floods and cyclones, during the culture season can have a serious impact on the prospects of successful culture. In spite of technical advancement and development of Specific Pathogen Free (SPF) seed, the possibilities of the shrimps getting affected by virus and diseases cannot be ruled out.

Volatility of international prices of shrimps and fluctuating foreign exchange rates, US anti-dumping duty and US Countervailing Duty continue to be the major areas of threat for the industry.

However, development of the potential domestic market to support exports, strict adherence of traceability, scientific pond management and a judicious approach to prices and forex management are expected to reduce the impact of threats to a great extent.

Outlook:

At the start of the calendar year 2018, the international shrimp prices started reducing gradually by 10-15% due to slower off take in the US, which is caused by an extended winter in the US. Consequently, the domestic shrimp prices have also reduced, making it less remunerative to the farmer. Due to pricing uncertainty and margin pressures, farmers have adopted a cautious approach. As per our market reports the shrimp culture may grow by 5-10% during the year as compared to the previous year. The trend of low international prices is expected to continue till September-October 2018, when the US and European Union (EU) will start placing orders again for Christmas and year-end festivities, the prices will see an upward trend.

Power:

The Company has investment in the following power projects :

- (a) The 3.2 MW Wind Mill Project in Chitradurg, Karnataka State is operational and has generated 49.13 Lakh units during the year.
- (b) Srivathsa Power Projects Pvt Ltd. is a 17.2 MW gas-based independent power project in which Company holds 49.99% of equity shares. During the year 2017-18, the gas supply was drastically reduced by GAIL to

37,172 SCMD as against the nominated quota of 65,000 SCMD. As a result, the power generation was limited to 549.26 Lakh units as against a capacity of 911.04 Lakh units. During the year 2017-18, the Company reported a turnover of ₹ 1738.70 Lakh and a profit of ₹ 32.51 Lakh after charging interest, depreciation and tax.

- (c) Patikari Power Private Limited, the 16 MW Hydel Power Project in Himachal Pradesh with the Company's investment of 25.88% in equity shares, was commissioned in February 2008. During the year 2017-18, the Company generated 502 Lakh saleable energy units, yielding a gross sales income of ₹ 1129.37 Lakh and resulted in a profit of ₹ 372.32 Lakh after charging interest, depreciation and tax.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that all transactions are properly authorised recorded and reported correctly. Further, the internal control system is designed to ensure that all the financial and other records are reliable for preparing financial statements and for maintaining accountability of the assets.

In addition, the Company has an internal Risk & Compliance Department headed by a Chartered Accountant having 18 years of experience in the relevant field. The department is responsible for ensuring compliance of all the statutory requirements by the Company. This department is also responsible for internal audit and periodical risk appraisal, internal as well as external, of all the functional departments in the organisation. On the basis of the appraisal, potential risks are identified and preventive measures are initiated depending on the perceived gravity of the risk.

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The financial statements have been prepared in compliance with the requirement of the Companies Act, 2013 and Generally Accepted Accounting Principles (GAAP) in India. In the year under consideration, your Company reported a profit of ₹ 62,915.19 Lakh before tax adjustments as compared to a profit of ₹ 29,636.07 Lakh in the previous year.