MANAGEMENT DISCUSSION AND ANALYSIS REPORT

I. OVERVIEW OF THE FOOD PROCESSING SECTOR:

The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year. In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry. The food industry, which is currently valued at USD 39.71 billion is expected to grow at a compound Annual Growth Rate (CAGR) of 11 per cent to USD 65.4 billion by the year 2018.

The Indian food processing industry accounts for 32 per cent of the country’s total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 14 per cent of manufacturing Gross Domestic Product (GDP), 13 per cent of India’s exports and 6 per cent of total industrial investment.

The growth of Indian Food Processing industry in the year 2015 is USD 258 billion which is expected to be at USD 482 billion by the year 2020.

According to the data provided by the Department of Industrial Policies and Promotion (DIPP), the food processing sector in India has received around US$ 6.70 billion worth of Foreign Direct Investment (FDI) during the period April 2000-December 2015. The Confederation of Indian Industry (CII) estimates that the food processing sector has the potential to attract as much as US$ 33 billion of investment over the next 10 years and also generate employment of nine million person-days.

Source: Ministry of Food Processing Industries (MOFPI), Agricultural and Processed Food Products Export Development Authority (APEDA), Media reports and Press Releases, Department of Industrial Policy and Promotion (DIPP), Press Information Bureau (PIB), Confederation of Indian Industries (CII), Union budget 2015-16, Union Budget 2016-17, Make in India (Food processing).

Notable Trends in the Indian Food Processing Sector

<table>
<thead>
<tr>
<th>Emphasis on Healthier Ingredients</th>
<th>Food processing companies are serving health and wellness as a new ingredient in processed food, given that health conscious consumers prefer low fat, low cholesterol food.</th>
</tr>
</thead>
</table>
| Packaging as a purchase influencer and communicator | • Food packaging has enabled today’s consumers to look for various options, and compare the value offering thereof, before making a purchase.  
• Packaging has also helped enhance ‘carry ability’ of products and increase their shelf life. |
| A shift from usefulness in processing to usefulness to consumers | Consumers have become aggressive in demanding better, safer, and convenient food products and are willing to pay higher price for health and convenience. |
| Frozen and Ready to eat Goodness | • Frozen and Ready to eat foods offer both convenience and nutrition.  
• The increase in spending capacity and concurrent time –paucity has led to the continued development of such Frozen and Ready To Eat food. |
2. OPPORTUNITIES, THREATS AND GENERAL BUSINESS OUTLOOK:

The range of Company’s products includes Meal Accompaniments (Pickles, Pastes, Chutneys), Ready-to-eat Curries, Canned Vegetables in Brine, Spices in whole and ground form, blended masala, IQF Indian Vegetables, Frozen snacks, Frozen Parathas, Frozen Continental and Mexican Foods, sauces etc. The Company has well established brands and strong distribution networks in Europe, USA, Middle East Countries, Australia, Canada and Asia. Simultaneously the Company has been establishing its footprints in the domestic market under its brand ADF Soul.

The overall Business Development during the year under review is as under:

India:

The Company continues to strengthen the distribution reach of ADF SOUL and at the same time focuses on brand building, product and packaging innovation, retail penetration and introduction of new products to strengthen the market presence. During the year the Company has re-launched its Instant Masala Mix range of ADF Soul products with new improved packaging and eight exciting varieties. These products are made with the goodness of olive oil and do not contain preservatives and artificial flavours. The Company has also entered into smart e-distribution tie-ups for enhancing the market coverage of ADF Soul in the major cities like Mumbai, Delhi, Ahmedabad and Bangalore.

Going forward the Company will be working towards enhancing market share and brand reputation with significant brand and marketing spends and widening of product range in the coming years, driven by changing consumption patterns and evolving consumer needs.

US business:

The Company stopped its US manufacturing operations since December 2015 on account of expiration of the factory lease. As the cost of setting up a new manufacturing unit would have required considerable investment the Company shifted to a more cost effective option of getting the products manufactured through a contract packer. During the year under review the Company has developed a new product category which will see launching of many exciting products during this fiscal year.

International business:

The Company has been exporting its foods products over 45 countries across the Globe.

During the year under review, the new variants were introduced under Ashoka brand in Frozen foods and ready to eat categories. The Company also introduced new range of vegan (dairy free) products in ready to eat category.

Business Opportunities and threats:

The Company has excellent growth opportunities as it is poised with the following strengths:

- Well established & well differentiated brands
- Strong Distribution network
- Experienced Management and dedicated team force
- Consistent R & D Innovation
Simultaneously the Company is facing certain threats such as:

- Complex supply chain
- Ever increasing cost of raw material, packing material and fuel
- Threats
- Labour intensive operations
- Exchange rate fluctuations

3. THE PRODUCT-WISE PERFORMANCE:

<table>
<thead>
<tr>
<th>Product description</th>
<th>Current year – 31.03.2016</th>
<th>Previous year -31.03.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Value</td>
</tr>
<tr>
<td>Finished goods</td>
<td>In MT</td>
<td>In Rs. (Lacs)</td>
</tr>
<tr>
<td>Meal accompaniments</td>
<td>9,912</td>
<td>7,729</td>
</tr>
<tr>
<td>Frozen foods</td>
<td>1,570</td>
<td>3,077</td>
</tr>
<tr>
<td>Ready to eat</td>
<td>916</td>
<td>1,547</td>
</tr>
<tr>
<td>Spices and condiments</td>
<td>765</td>
<td>1,331</td>
</tr>
<tr>
<td>Others</td>
<td>497</td>
<td>634</td>
</tr>
<tr>
<td><strong>Total - Sale of finished goods (A)</strong></td>
<td>13,660</td>
<td>14,318</td>
</tr>
<tr>
<td></td>
<td><strong>In Rs. (Lacs)</strong></td>
<td><strong>In Rs. (Lacs)</strong></td>
</tr>
<tr>
<td><strong>Total sale of traded goods (B)</strong></td>
<td>1,040</td>
<td></td>
</tr>
<tr>
<td><strong>Total sale (A+B)</strong></td>
<td>15,358</td>
<td></td>
</tr>
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4. RISKS AND CONCERNS

The Company continuously works towards de-risking its business by adopting preventive measures. Your Company has well established Business Risk Management System which enables detection and monitoring of the business risks on a continuous basis. However, there are certain potential risks being more industry oriented and the management strongly feels that same could be mitigated by having systematic decisions and measures. These industry oriented risks are as listed below:

- **Raw Material prices and operating expenses**
  
  Raw Material is a very crucial cost for the Company’s products. Any increase in the prices of core raw materials would adversely affect the Company’s operating results. The Company is adopting best possible measures to keep operating expenses as much under control and also working on better product mix to maintain the margins.
Competition

Competition, generally perceived as the ‘game changing risk’ is a critical area in Food industry sector. With players continuously entering both the organized as well as unorganized sector, it is bound to increase the pressure on pricing strategies and the demand for Company’s products. There is an apparent rise in the number of international food franchises getting their foothold in India. Even with this, the management is positive to outperform with its performance.

Domestic Economy

Adverse changes in disposable income may impact consumption pattern. Your Company has multi processing capabilities to cater to the variances and changing consumer preferences. Also keeping in view the overall growth of the economy, emerging health consciousness and growing retail in India, it is expected that the processed food consumption will continue to grow at a faster pace.

Exchange Rate Fluctuation

The Company being engaged in exports, derives approximately 96% of its revenue from export sales. An appreciation of the Indian Rupee can adversely impact the Company’s exports. The Company manages this financial risk through booking of forward contracts in the range of approximately 50% of our projected sales.

5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Identification and monitoring the internal control systems play a crucial role in an organization. The Company has a well established system of internal controls including Internal financial Controls and its adequacy is constantly supervised by the Management. The internal control system implemented by the Company strikes at achieving efficiency in operations, optimum utilization of resources and effective monitoring thereof and compliance with all applicable laws and regulations.

Key controls have been tested during the year and corrective and preventive actions are taken for any weakness.

Regular internal audits are conducted by outsourced audit teams. Risk based internal audit plan is approved the Audit Committee which also reviews adequacy and effectiveness of the Company’s internal financial controls.

6. FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Tight budgetary control, over all key operational performance indicators and review of working capital is being exercised for continuous improvement of performance and profitability. Funds have been judiciously deployed to support high quantum of operations without resorting to additional borrowings, wherever possible.

A detailed note on the financial performance of the Company is given in the Director’s Report.

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

The Company believes in the overall development and continuous growth of its employees. The Company continues to provide its employees the ideal workplace where they can give optimum results. This has resulted into team spirit and team work. The Company continues to equip its employees with the skill which would enable them to meet the growing organizational challenges.

The relationships with employees have been cordial and operations at the factory uninterrupted. Measures for safety of employees, welfare and development continue to receive top priorities. The Company has 305 employees as on 31st March, 2016.

8. CAUTIONARY STATEMENT

Statements in this Management Discussion and Analysis describing the Company’s objectives, expectations or predictions may be forward looking 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 raw material availability and prices, cyclical demand and pricing in the Company’s principal markets, competitive actions, changes in Government regulations, tax regimes, economic developments in India and in countries in which the Company conducts business and other incidental factors.