

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

Among the private sector players in the Dairy Industry in India, Hatsun Agro Product Limited ("HAP" or "the Company") is the largest Private Sector Dairy, manufacturing and marketing Ice Creams, Milk and Milk products such as Curd, Ghee, SMP etc., and also a Cattle Feed.

HAP Management accepts responsibility for the integrity and objectivity of the Financial Statements and various estimates and judgments used therein. The estimates and judgments relating to Financial Statements have been made on a prudent and reasonable basis, so that the financial statements reflect in a true and fair manner, the form and substance of transactions, and reasonably presents our state of affairs, profit and cash flows for the year.

GENERAL ECONOMIC SCENARIO & INDUSTRY STRUCTURE

India's economy is now rated as the fastest-growing major economy in the world and it is expected to be one of the top three economic powers in the world over the next 10-15 years, due to its robust democracy and strong partnerships.

India is the third-largest unicorn base in the world with over 83 unicorns collectively valued at US\$ 277.77 billion, as per the Economic Survey. By 2025, India is expected to have 100 unicorns, which will create ~1.1 million direct jobs according to the Nasscom-Zinnov report 'Indian Tech Start-up'. India needs to increase its rate of employment growth and create 90 million non-farm jobs between 2023 and 2030s, for productivity and economic growth according to McKinsey Global Institute. The net employment rate needs to grow by 1.5% per year from 2023 to 2030 to achieve 8-8.5% GDP growth between 2023 and 2030. According to data from the Department of Economic Affairs, as of January 28, 2022, foreign exchange reserves in India reached the US\$ 634.287 billion mark.

Positive developments in the Economic front in the recent past are as follows:

- The gross GST (Goods and Services Tax) revenue collection stood at ₹1.38 trillion (US\$ 18.42 billion) in January 2022. This was a 15% rise over a year ago.
 - India's Index of Industrial Production (IIP) for November 2021 stood at 128.5 against 126.7 for November 2020.
 - Consumer Food Price Index (CFPI) – Combined inflation was 2.9% in 2021-22 (April-December) against 9.1% in the corresponding period last year.
 - Consumer Price Index (CPI) – Combined inflation was 5.20% in 2021-2022 (April-December) against 6.6% in 2020-21
 - Foreign Portfolio Investors (FPIs) invested ₹50,009 Crore (US\$ 6.68 billion) in the Calendar year 2021.
 - The wheat procurement in Rabi 2021-22 and the anticipated paddy purchase in Kharif 2021-22 would include 1208 Lakh (120.8 million) metric tonnes of wheat and paddy from 163 lakh (16.3 million) farmers, as well as a direct payment of MSP value of ₹2.37 Lakh Crore (US\$ 31.74 billion) to their accounts.
- The Government of India has taken several initiatives to improve the economic condition of the country through the Union Budget for the financial year 2022-23.**
- Highlights of the Union Budget 2022-23 presented on February 1, 2022, by the Minister for Finance & Corporate Affairs, Ms. Nirmala Sitharaman are as follows;
- Announcement of four priorities viz., PM GatiShakti, Inclusive Development, Productivity Enhancement and Investment and Financing of Investments.
 - Effective capital expenditure is expected to increase by 27% at ₹10.68 Lakh Crore (US\$ 142.93 billion) to boost the economy. This will be 4.1% of the total Gross Domestic Production (GDP).
 - Under PM GatiShakti Master Plan, the National Highway Network will develop 25,000 km of new highways network which will be worth ₹20,000 Crore (US\$ 2.67 billion) in 2022-23. Increased government expenditure is expected to attract private investments, with a production-linked incentive scheme providing excellent opportunities. Consistently proactive, graded, and measured policy support is anticipated to boost the Indian economy.
 - Productivity linked incentive (PLI) schemes to be extended to 14 sectors for achieving the mission of Atma Nirbhar Bharat and create 60 Lakh Jobs with an additional production capacity of ₹30 Lakh Crore (US\$ 401.49 billion) in the next 5 years.
 - Announcement of funding for the production linked incentive (PLI) scheme for domestic solar cells and module manufacturing of ₹24,000 Crore (US\$ 3.21 billion).

- Announcement of production linked incentive (PLI) scheme for Bulk Drugs which was an investment of ₹ 2500 Crore (US\$ 334.60 million).
- Announcement in respect of a scheme for design-led manufacturing in 5G will be launched as part of the PLI scheme.
- Reserve Bank of India (RBI) will issue Digital Rupee using blockchain and other technologies.

Numerous foreign companies are setting up their facilities in India on account of various Government initiatives like Make in India and Digital India. Our Prime Minister of India, launched the Make in India initiative with an aim to boost the country's manufacturing sector and increase the purchasing power of an average Indian consumer, which would further drive demand and spur development, thus benefiting investors. The Government of India, under its Make in India initiative, is trying to boost the contribution made by the manufacturing sector with an aim to take it to 25% of the GDP from the current 17%. Besides this, the Government has also come up with the Digital India initiative, which focuses on three core components: the creation of digital infrastructure, delivering services digitally and increasing digital literacy.

Generally speaking, all the industrial activities picked up during the financial year 2021 – 22 due to the administration of Covid vaccines effectively to hundreds of Crore of people throughout the Nation and the immunity development (herd immunity) of masses which has resulted in bringing the near normalcy in the health scenario removing the fear of pandemic made the Central and State Governments to announce the phased relaxations in the restrictions on movement of people and the vehicles. Industrial activities were near normal in the financial year under consideration and the financial results of the industrial sector for the last 4 quarters show the pick up in production, volumes, profits, increased GST and other tax collections.

Indian dairies managed the Covid-19 pandemic restrictions very well and in the post relaxation period produced and processed more milk and we are proud to note and say that India topped the Milk production in the World with a turnover of INR 8.50 Lakh Crore contributing to 23% (Twenty three percent) of global Milk production which is more than the turnover of wheat and rice. Thanks to the large farming community in India who have made this feat possible. Milk production in the Country has grown at a compounded annual growth rate of 6.2% in the last 6 - 7 years.

Dairy is the single-largest agri commodity in India. It contributes five per cent to the national economy and employs 80 million dairy farmers directly.

A revival in economic activities, increasing per capita consumption of milk and milk products, changing dietary preferences and rising urbanisation in India, has driven the dairy industry to grow by 9-11 per cent in 2021-22.

Though it was a bumpy ride for the Milk Industry, your Company managed the situation well and continued to progress as planned by the management. As projected by the industry experts, in the next 5 years' time period, the growth of Dairy Sector in India is expected to be CAGR of 14.98% i.e., during 2022 – 27 which will be applicable for the Company's performance too.

There are various factors driving the growth of Dairy Industry in India. Some of them are i) the evolution of the dairy industry from an unorganised to a relatively organised sector, ii) increasing consumption of different value-added products, such as cheese, probiotic drinks, ice creams, yogurt, etc., iii) consumer choice of food pattern i.e., reducing meat products and preferring Milk products particularly during and after the Corona pandemic, health awareness etc., are currently driving the dairy industry in India.

Based on the product type, the dairy industry in India can be segregated into liquid milk, UHT milk, flavoured milk, curd, frozen yoghurts, probiotic dairy products, lassi, buttermilk, table butter, ghee, paneer, cheese, khoya, cream, skimmed milk powder, dairy whiteners, sweet condensed milk, ice cream, whey, A2 milk, organic milk, milk shake, and dairy sweets. Among these, liquid milk currently holds the majority of the total market share. Steady demand for the value added products and liquid milk saw a growth and the consumption / demand showed the pre pandemic trend.

Union Budget 2022-23 is expected to boost the dairying and livestock sector with a host of measures to make it sustainable post COVID-19 pandemic restrictions.

Some 95 per cent of livestock farmers are concentrated in rural India. Hence, infrastructure development under the Vibrant Villages Programme will play a significant role in enhancing market access for these livestock farmers.

Reduced alternate minimum tax and surcharge reduction for cooperative societies from 18.5 per cent to 15 per cent will benefit thousands of dairy cooperatives in India, translating into higher income for dairy farmers.

An increased allocation of 20 per cent in 2022-23 for the Rashtriya Gokul Mission and National Programme for Dairy Development is expected to help in increasing the productivity of indigenous cattle and quality milk production.

The increase in allocation for the livestock sector by more than 40 per cent for 2022-23 and the enhanced allocation for central

sector schemes by more than 48 per cent shows commitment by the government for the growth of livestock and dairy farmers. An almost 60 per cent enhancement in allocation for livestock health and disease control for 2022-23 over the previous year will ensure healthier livestock.

Incentivising digital banking, digital payments and fintech innovations will create a ripple effect in the livestock sector through greater transparency by streamlining payments during milk procurement and other services rendered by livestock farmers. A completely paperless, e-bill system will be launched by ministries for procurement.

BUSINESS-WISE PERFORMANCE OF THE COMPANY

MILK PROCUREMENT:

Your Company handles more than 4,00,000 farmers on a daily basis, spread over more than 10,000 Villages. Your Company procures Milk in most of the Southern States viz., Tamilnadu, Andhra Pradesh, Telangana, Karnataka and also in the State of Maharashtra.

Active Bulk Cooler (ABC), an advanced system of procuring and chilling the milk at the village level is present in over 1100 locations. These chilling facilities improve the quality of Milk and retain its freshness until they reach the Dairy Plants for further process. Farmers become more flexible in milking their Cows. This facilitates instant chilling within 2 hours, increased quantity of Milk, prevention of spillage or spoilage and improve shelf life.

The two parameters tested for determining quality are Fat and SNF which allows the determination Price to be paid to the farmers. Farmers are paid on time every 10 days and the payment is made directly to their Bank Accounts using the state-of-the-art database of farmers. HAP operates more than 1,200 rural milk procurement routes with an assigned route plan. The route plan determines the pick-up timing and schedule which ensures the Milk procurement vehicles reach the Hatsun Milk Chilling Centres (CCs) right on time.

During the FY 2021-22, your Company procured Milk on an average of 29.94 LLPD as against 29.02 LLPD procured during the FY 2020-21. The state-of-the-art Plants for processing and packaging the Milk and Milk products are situated in the States of Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Maharashtra in strategic locations.

DISTRIBUTION NETWORK – MILK AND MILK PRODUCTS

Your Company distributes its various products viz., Ice Creams, Milk and Milk Products through its “HAP Daily” Stores

numbering about 3500+, situated in various strategic locations across Tamilnadu, Andhra Pradesh, Telangana, Karnataka, Kerala and Maharashtra. Besides the above, your Company operates its own outlets under the brand and style of “IBACO” to sell Ice Creams and Chocolates. Ready to Eat products division under the Brand “OYALO” was discontinued during the financial year in the fourth quarter and the assets were sold to Naga Limited.

HAP markets its Milk and Curd through its popular brand names of “Arokya” and “Hatsun”. While the Milk is marketed in four different variants viz., standard, full cream, toned and double toned, the Curd is marketed in the form of pouches ranging from 180 grams to 1 kg and cups ranging from 50 Gms to 400 Gms. Both Milk and Curd are being sold across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Maharashtra through its own distribution network and outlet viz., “HAP Daily”.

Besides the above, your Company selectively retail other milk products such as Paneer, Yoghurt Shakes, Ghee, Butter, Skimmed Milk Powder and Dairy Whitener in various markets through its HAP Daily Outlets.

Further, apart from direct sales to consumers, HAP Daily Outlets supply its products to various retail outlets within the vicinity, thereby increasing ease of availability of its products and expanding the brand reach to the Consumers. The retail outlets offer tremendous growth opportunities for the franchisees.

Going forward, HAP plans to open more HAP Daily outlets in newer markets such as Maharashtra, Kerala, Orissa, Chhattisgarh, Madhya Pradesh, West Bengal and Jharkhand and deepen its presence in its traditionally strong markets of Tamil Nadu, Karnataka, Andhra Pradesh and Telangana. HAP aims to be a pioneer and transform the retail fabric of the Indian dairy industry.

DISTRIBUTION NETWORK - ICE CREAMS

HAP strongly holds two popular brands “Arun” and “IBACO”. The Arun Ice cream brand enjoys dominant position across South India. The brand’s promise has always been to give customers more choices, which is why Arun Ice creams has come out with a range of new products and flavours.

HAP produces various innovative Ice cream varieties in Bars and Cones. The Company has installed state-of-art extrusion machine to increase overall productivity and manufacture different varieties of Ice Creams.

HAP is leveraging mega cold storages situated in the State of Tamilnadu at Salem, Kanchipuram, Karur, Palacode, Tirunelveli, Redhills, in the State of Andhra Pradesh at Kasyapuram and in the State of Telangana at Shadnagar to meet its peak Ice Cream demand during the summer months of April and May.

IBACO has gone on to become one of the most beloved brands of ice cream. Overwhelmingly positive customer feedback has led to the launch of many parlours, new product offerings, and fresh, exciting flavours. Rest assured, the brand will keep innovating well into the future.

OTHER MILK PRODUCTS

GHEE, PANEER, BUTTER, SKIMMED MILK POWDER, YOGHURT, DAIRY WHITENER, DAIRY CREAMER, LASSI, BUTTER MILK AND FLAVOURED MILK.

Under the Hatsun brand, the company continues to come out with products to satisfy every consumer need. The range includes Curd, Ghee, Cooking Butter, Table Butter, Lassi, Buttermilk, Paneer, Yoghurt Shakes, Yoghurt Tops, Shrikand and Cheese Spread to name a few. These products are ideal for a variety of cooking and consumption requirements - be it preparing a delicious dish or if consumers are looking for ways to cool down during the intense summer heat.

The Hatsun Cow Milk is pasteurised and packed under hygienic conditions with nothing added or removed. The milk will leave a thick layer of cream while boiling.

HAP Fresh Dairy Plant Operations upcoming plans:

1. Capacity enhancement of Curd Pouch from 800 Tons Per Day to 920 Tons Per Day for the season 2023.
2. Capacity enhancement of All Other Products from 190 Tons Per Day to 290 Tons Per Day for the season 2023.
3. New Product Launches for the year 2023-24 - Homogenized Cow Milk, Yoghurt SIP, Pasteurized Fruit Juices, Greek Yoghurt, Skyr etc.

CATTLE FEED

A team of agronomists help cultivate cattle feed in the most economical way possible. It also meets the nutritional requirements of the animals. Under the brand Santosa, HAP also manufactures and sells cattle feed to farmers based on their need.

HAP has a plant with state-of-the-art facility in Tamil Nadu to manufacture Cattle Feed with an installed capacity of 24,000 MT per month. Besides this, your Company has expanded the

Cattle Feed capacity in its Sangola Plant with an installed capacity of 6000 MT. These cattle feeds are supplied to farmers who are regularly supplying milk to HAP and the recoveries for such feed are made against the supply of milk by the farmers.

ANIMAL HUSBANDRY

The Animal Husbandry team is key to increasing profitability of dairy farms by increasing milk production efficiency and reducing costs. Working closely with the feed (Sourcing) team, professionals working in Animal Husbandry provide farmers with a complete package of forages and concentrates. Besides this, qualified animal health professionals hired by the Company ensure the health of animals to enable the farmers supply the quality Milk to the Company uninterruptedly. They also educate the farmers on the practice of best ways to prevent ailments to the Cattle.

A trained team of inseminators visit the villages to provide AI services from quality bulls. The goal of this process is to ensure that milch cows produce a calf every year with better genetic qualities. All the Cattle are managed efficiently with first of its kind Cattle Management System. They are tagged and their data recorded. The Company works closely with large farms to source appropriate technology that will help reduce labour and uses powerful tools to help monitor bulls and improve their productivity which contribute to reduction in cost and improving profitability.

FINANCIAL PERFORMANCE

The financial performance is covered in the Directors' Report and can be referred to in the said Report.

DETAILS OF SIGNIFICANT CHANGES

(i.e., CHANGE OF 25% OR MORE AS COMPARED TO THE IMMEDIATELY PREVIOUS FINANCIAL YEAR) IN KEY FINANCIAL RATIOS WITH EXPLANATION:

- i) **Debtors Turnover Ratio (in Times)** - This stands at 822.37 compared to the previous year's 613.81. There is a significant change to the extent of 33.98 percent. The main reason for this change is due to reduction in B2B customers outstanding.
- ii) **Inventory Turnover Ratio** - This stands at 10.85 compared to previous year's 11.80. There is a change to the extent of 8.07 percent. There is no significant change.
- iii) **Interest Coverage Ratio** - This stands at 1.04 compared to previous year's figure of 1.21. The change is 14 percent. There is no significant change.
- iv) **Current Ratio** - This stands at 0.56 compared to previous year's figure of 0.54. The change is 4.88%. There is no significant change.
- v) **Total Debt to Equity Ratio** - This stands at 1.54 compared to previous year's figure of 1.39. The change is 11.03 percent which is not significant.

- vi) **Operating Profit Margin (%)** - This stands at 4.31 compared to previous year's figure of 6.54. The change is 34.15%. The decrease in % is mainly due to the increase in procurement Prices, Advertisement & Travel and Conveyance Overheads besides reduction in the value added products contributing to the Profit margin due to pandemic situation.
- vii) **Net Profit Margin (%)** - This stands at 3.41 compared to previous year's figure of 4.42. The change is 22.98% percent which is mainly due to increase in procurement Prices, Advertisement & Travel and Conveyance Overheads besides reduction in the value added products contributing to the Profit margin due to pandemic situation. Also, there was a reduction in tax expense which is inclusive of the effect on deferred tax in the current year compared to the previous year on account of changeover to new tax regime.

DETAILS OF ANY CHANGE IN RETURN ON NET WORTH AS COMPARED TO THE IMMEDIATELY PREVIOUS FINANCIAL YEAR ALONG WITH A DETAILED EXPLANATION THEREOF.-

During the financial year under review, the Company's paid up Equity Share Capital did not undergo any change. The Equity paid up Share Capital stood at ₹21,55,63,323. The Company's Operations resulted in transfer of Surplus to Reserves which has resulted in increase in the Networth of the Company.

OPPORTUNITIES

With the ever increasing population coupled with health consciousness particularly post Covid 19 pandemic, changing consumer priorities replacing meat based food products with milk based food products, availability of Milk and Milk based food products throughout the Country both from the organised and unorganised Sector, affordability and the cost and other positive factors result in consumption/offtake of Milk and Milk Products in India.

Union Budget 2022-23 is expected to boost the dairying and livestock sector with a host of measures to make it sustainable post COVID-19 pandemic restrictions. Infrastructure development under the Vibrant Villages Programme will play a significant role in enhancing market access for the livestock farmers who live in rural India. Reduced alternate minimum tax and surcharge reduction for cooperative societies from 18.5 per cent to 15 per cent will benefit thousands of dairy cooperatives in India, translating into higher income for dairy farmers. An increased allocation of 20 per cent in 2022-23 for the Rashtriya Gokul Mission and National Programme for Dairy Development is expected to help in increasing the productivity of indigenous cattle and quality milk production. An almost 60 per cent enhancement in allocation for livestock health and disease control for 2022-23 over the previous year will ensure healthier livestock.

Incentivising digital banking, digital payments and fintech innovations will create a ripple effect in the livestock sector through greater transparency by streamlining payments during milk procurement and other services rendered by livestock farmers. A completely paperless, e-bill system will be launched by ministries for procurement.

All the above initiatives taken by the Central Government will translate in to economic well being of farmers in large numbers who are engaged in dairying. Dairying is both primary and secondary source of income to large number of farmers. Being an income generating activity, large women folk also are involved in dairying who take small loans from financial institutions like microfinance institutions/banks for their business and repay. The monetary benefits derived out of their Milk business will help banks and microfinance institutions to recover their dues on time and pave the way for healthy business and economic environment too.

Once again, in this year too, monsoons look to be favourable in our country repeating its performance in the past two to three years. The Southwest Monsoon is expected to set in, in the month of May, 2022 and give us the required water for farming, livestock and other food industries. This is indeed a good news in the post COVID-19 scenario, assuming that the agriculture can do better largely unscathed .

Despite the intense competition, there is a phenomenal scope for expansion in other States of India where the consumer behaviour is changing replicating the urban consumption pattern and scope for innovations in new and varied product development, packaging and presentation. Considering the changing consumption pattern and choices of food product among the public, with the available technology and availability of balancing equipment, the flexibility of product mix is

tremendous and the Company can keep on adding new products to its product line. Installation of state-of-the-art machineries - fully/semi automated add to the productivity and reduction in cost.

In the financial year 2021 – 22, Your Company continued the strategies adopted in the previous FY for sustaining the operations and profitability which paid off well. The experience gained in the previous year putting in place the strategies, for effectively addressing the negatives brought in by the unforeseen and external factors like the heavy rainfall particularly in the southern parts of India, worked to the advantage of the Company in mitigating the losses suffered in Ice Cream Sales. The quarterly period ended 31.03.2022 showed signs of pick up in sale of all the items of Milk and Milk products and the positive news on the projections given for the Dairy Industry for the financial year 2022-23 and the years to come strengthens the belief of your Company to continue to improve its performance, growth in numbers through planned and executed expansions, capacity additions, entering new markets etc.,

Your Company has the excellent work force to achieve its goals, implement strategies and thus constantly improve its performance and rewarding all its stakeholders. The existing Human Resource is proving to be opportunity to unearth the potential of the Company, achieve the targets/milestones and mitigate the risks due to the unforeseen external negativities like the pandemic/excess rainfalls.

Your Company took the required steps to reduce the cost involved in its overall operations where it was possible and constantly endeavours to utilise the opportunities thrown in this pandemic situation to help the Society at large and its Stakeholders in particular.

Your Company strongly believes that still there is enormous scope seen ahead before the dairy industry for Milk and value-added products including custards, desserts, puddings, sauces, mousse, stirred yogurt and nectars and there will be an increase in demand for processed and packaged dairy produce post Covid 19 scenario in urban centres due to the change in food habits and health awareness created by the pandemic. Your Company has entered new markets and has established its presence in the State of Maharashtra.

The main advantage of your Company's strength lies in its efficient and effective supply of manufactured products and cold chain management which facilitates wide reach and targeted coverage in its markets. Your Company has a professionally -trained, technical human resource pool, built over years to meet the challenges in the dairy industry and they do work as a team for the attainment of organisational objectives.

THREATS

Farmers keep two to five in-milk animals for livelihood. In this setup, unpaid female family labour supplies a major part of the labour requirement for milk production. The landless and marginal farmers among them have no livelihood options to fall back when they fall short of buyers for milk particularly in the periods of pandemic which we witnessed in the recent past. Farmers in the Dairy Sector being in Informal Nature unlike sugarcane, wheat, and rice-producing farmers, they are unorganised and do not have the political clout to advocate for their rights. Though the value of milk produced outweighs the combined value of the output of wheat and rice in India, there is no official and periodical estimate of the cost of production and Minimum Support Price for milk. Further, even though dairy cooperatives handle about 40 percent of the total marketable surplus of the milk in the country, they are not a preferred option of landless or small farmers. This is because more than 75 percent of the milk bought by dairy cooperatives is at its lower price band. Vagaries of procurement price due to both internal and external factors, bring in the fear of erratic availability of milk to the Milk Industry since the farmers tend to move to greener pastures particularly to the urban areas for their assured livelihood.

During the pandemic of Covid 19, whose severity was more in the financial year 2020-21 which continued but reduced in the financial year 2021-22 with gradual relaxation in movement of people and vehicles posed a threat to the normal life of farming community at large. There has been a self-imposed ban on door-to-door sale of liquid milk by households both in urban and rural areas, forcing farmers to sell their entire produce to dairy cooperatives at a much lower price. Further, the closure of shops had cut down the demand for milk and milk products while severe shortage of fodder and cattle feed pushed up the input cost. This bitter past may result in non availability of expected supply of milk to the Industry even through there is potential for growth.

Also, private veterinary services have almost stopped due to Covid-19, which led to the death of milch animals. This apart, given the nature of production and sale of milk in India, milk producers are highly susceptible to even minor shocks as the demand for milk and milk products are sensitive to changes in the employment and income of consumers. Therefore, a lot needs to be done to save this critical sector of Indian economy.

Even though the private players in the Industry of Milk and Milk products managed to wade through the difficult period with lesser/manageable shocks, the uncertainties which are external in nature pose to be a serious threat to the Industry which cannot scale up their production due to the instability.

Over the past few decades, the Dairy sector has emerged as a lifeline of the rural economy in India. However, given the high price elasticity of milk and milk products, the dairy sector has become one of the most vulnerable sectors of the rural economy. Therefore, given the importance of dairy sectors, for both

farmers and consumers, there is a need for governments at various levels to address this crisis and establish a holistic framework for the overall growth of the sector.

Dairy analogues, plant-based products and adulteration pose a major challenge and threat to the dairy industry. The new regulation for analogues and ghee standards has been amended by the Food Safety Standards Authority of India recently. National Dairy Development Board (NDDB) and Bureau of Indian Standards (BIS) together developed a dedicated 'Dairy Mark' logo as a unified quality mark across India to boost confidence of consumers in milk and milk products.

A unified Conformity Assessment Scheme has been chalked out by BIS with the help of NDDB after extensive stakeholder consultations. This is a novel and first-of-its kind certification scheme, considering the perishable nature and short shelf-life of milk and milk products, as well as the extensive cold-chain involved. Awareness on clean milk production and various schemes by the Department of Animal Husbandry and Dairying and the new Ministry of Cooperatives will help dairy farmers evolve in the future.

The fundamental challenge in dairy is maintaining quality and quantity within a diversified supply base. Milk being perishable requires more complex supply chain operations and logistics to ensure freshness and safety particularly in cities with multiple retail outlets. Need for introducing innovative and healthy Milk products is constantly felt to ward off the competition. Even though there is a great potential for growth in Milk Industry, there are still gaps in infrastructure and consumer awareness.

In the Dairy Sector, product mix play an important role in deciding the sales volume and profitability. Different Pricing is done and different Margins are achieved on different product segments. Hence, it is very important to identify the products yielding high or decent margins to improve the bottom line of the Company. This requires continuous monitoring of the Market, Consumer Choice, Regulatory restrictions, impetus given by the Government, external or unforeseen factors affecting the trend like what we saw in the recent past i.e., the pandemic affecting the consumption etc., Investment and return potential vary significantly with choice of product-mix and type of processing segment focused on.

As we see in the Industry and the Investment pattern, slowly the competition in the Dairy Industry is building up and even the MNCs have made sufficient investments in Dairy Sector considering the performance and the potential for growth. Even, the Investments by the domestic players through their own funds and funds raised through Capital Markets/Venture Capitalists/FDI are increasing in the industry sensing the Opportunities. Even though the competition is healthy, the market share of a particular Company establishment may get affected due to Competition. Here, the brand, credibility, quality and service play the important roles for sustainability.

Being a seasoned player and standing in the Dairy Industry for decades, your Company and its Promoters are constantly monitoring the developments taking place in the Industry and adopt and implement the required Strategies and technologies innovated/discovered in Milk and Milk products processing. Constant improvement in all the areas of functioning in the Company is advocated and implemented by the Promoters and the Top Management to retain the position of a Leader in the private sector thanks to the efforts of the Promoters and the Management of the Company.

One of the bottleneck area is lack of proper infrastructure facilities like good roads, continuous power supply and adequate transport support in rural areas faced by the Dairy Industry. Your Company manages the odds effectively adopting innovative methods to overcome the bottlenecks and particularly in energy consumption, is giving importance to consume the Solar Power from the Solar Power generating companies by way of entering in to long term Power Purchase Agreements at a lesser cost. This ensures the uninterrupted

power consumption by the Company's Plants wherever possible, which is very important in ensuring the quality and shelf life of Milk and Milk Products.

Your Company has been leveraging on the improvement given its economies of scale and with its inherent ability to adopt new technologies, which involves large investment in the production and distribution infrastructure affordable only by bigger companies like us.

Your Company is focusing on the consistent availability and procurement of quality milk throughout the year by improving the per capital yield of animals by applying scientific methods, genetic improvement, scientific feeding, properly managed animal husbandry practices etc., Your Company constantly educates the farmers on how to maintain quality and improve milk yield by arranging supply of good quality feeds to farmers.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The CEO and CFO certification provided in the CEO and CFO certification section of the Annual Report discusses the adequacy of our internal control systems and procedures.

INFORMATION TECHNOLOGY

Successful implementation of SAP ERP facilitates an effective online MIS system, which helps in centralised control of operations at all the units of the Company. Your Company constantly upgrades and reconfigures this application to effectively monitor the increasing scale of operations of the Company. The hardware and network infrastructure is being constantly reviewed to increase the bandwidth and reduce operational costs. This is an ongoing process and your Company is committed to leverage the benefits of IT to enhance and optimise benefits to itself and its customers. Constant training and guidance has been provided to all the end users.

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

Your Company values its human resource as the most significant asset and the key focus is to attract, retain and develop talent as a resource. Your Company provides a congenial working atmosphere which will foster creative thinking. As part of manpower development and to enhance operational efficiency, training programmes have been organised for employees at all levels, wherever necessary.

The HR programmes of the Company focus on building capabilities and engaging employees through various initiatives to help the organisation consolidate and achieve sustainable future growth for the business.

Industrial Relations remained cordial at all the manufacturing locations during the year.

Effective employee communication through various channels ensured that all the employees are kept abreast of the current business situation. This has helped your Company to build mutual trust and confidence with the employees. The total strength of the Company as on 31st March, 2022 was 5541.

OUTLOOK AND RISKS & CONCERNS ARE COVERED UNDER OPPORTUNITIES AND THREATS.

FORWARD LOOKING STATEMENTS

Statements in this report describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations that involve risks and uncertainties. Such statements represent the intention of the Management and the efforts being put into place by them to achieve certain goals. Actual results might differ materially from those either expressed or implied in the statement depending on the circumstances. Therefore, the investors are requested to make their own independent assessments and judgments by considering all the relevant factors before making any investment decision.