“Khane mein kaunsa tel istemaal karti hain aap?”

JVL AGRO INDUSTRIES LIMITED
ANNUAL REPORT 2010-11

Forward-looking statement

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise

Contents

“Khane mein kaunsa tel istemaal karti hain aap?”

At JVL Agro, this singular question resulted in a rural encyclopedia capturing insights into what people use and how people eat.

This simple query enabled us to create a consumer franchise across different regional pockets, covering a number of cooking media products.

As a result, one out of every three edible oil customers across our target market is a JVL consumer. Even as you read this, we already sold 10 mt of edible oil.

The result is in the numbers: In 2010-11, we reported a 77% increase in our revenues to ₹2,180.79 crore and a 71% increase in our post-tax bottomline to ₹50.02 crore.

"Aapke munh mein ghee-shakkar."

Traditions go a long way.

In our case, it helped us emerge as India's largest and fastest-growing edible oil brand.

Promoter holding
49.51%
March 31, 2011

Team strength
2,500 members
March 31, 2011

Revenues
₹ **2,180.79** crore
2010-11

Profit after tax
₹ **50.02** crore
2010-11

Market capitalisation
₹ **211.28** crore
March 31, 2011

Net worth
₹ **262.02** crore
March 31, 2011

Vision

To delight the consumer through a complete vegetable oils solution, through continuous research and development in healthier oil varieties, leading to a single-stop convenience

Mission

To extend leadership from saturated fats to the entire vegetable oil segment in the first stage and to agro-based premium food products thereafter, from a single region in India to a global manufacturing and marketing presence

Identity

Promoted by Mr. D. N. Jhunjhunwala in 1989; commenced operations through the establishment of a 25 MT/day hydrogenated vegetable oil unit

Products

Vanaspati (hydrogenated vegetable oil), refined oils (palm and soya oil) and mustard oil

Assets

Operations carried out at three state-of-the-art manufacturing facilities in Uttar Pradesh (Varanasi), Rajasthan (Alwar) and Bihar (Dehri-on-sone). A new plant being proposed for Haldia in 2011-12.

Recognition

Recognised as the fastest-growing vanaspati brand in 2006 and Emerging company of the year 2007 by Globoil India; Mr. S. N. Jhunjhunwala (Managing Director) honoured as Globoil Man Of The Year 2008 for his industry contribution

Presence

Headquartered in Varanasi (Uttar Pradesh), India, with offices in Delhi, Mumbai and Kolkata and a subsidiary in Singapore. The Company also acquired additional land at Haldia for further expansion.

Markets

Products available across North, Central, East and Northeast India, covering 18 states and two Union Territories

Listing

Equity shares listed on the National Stock Exchange, Bombay Stock Exchange, Delhi Stock Exchange and Uttar Pradesh Stock Exchange. Stock split from one share of ₹10 each into 10 shares of Re. 1 each

Cutting a long story short

1990

Commenced production with a 25 TPD capacity

1993

Achieved 100-TPD production at Varanasi

1995

Switched vanaspati processing from chemical to modern mechanical technology

1999

Installed a 60 TPD unit for refined oil at Jaunpur, introducing crude soybean and palm olien oil

2000

Increased vanaspati production capacity to 200 TPD

2005

Introduced a fractionation unit of 200 TPD capacity

2006

- Acquired Rajasthan-based mustard oil seed-crushing and refining plant
- Invested in Adamjee Extraction, Sri Lanka, to import saturated fats under the Jhoola brand
- Product sales in the states of UP, Bihar, Jharkhand, Madhya Pradesh, Uttaranchal and Chhattisgarh.

2007

- Emerged as the first Uttar Pradesh vanaspati manufacturer to commission a 3-MW power plant
- Formed a wholly-owned Singapore subsidiary under JVL Overseas Pte Ltd
- Introduced products in the Northeastern states.

2008

- Commissioned an edible oil refinery/saturated fats unit in Bihar
- Commenced production of a new refinery in Uttar Pradesh, plant supplied by Alfa Laval with the latest technology
- Initiated de-oiled cake exports

2009

- Commenced commercial production from the Bihar unit
- Introduced products in Jammu and Kashmir, Himachal Pradesh and West Bengal

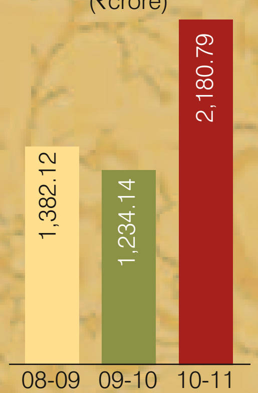
2010

- Commenced development of the Haldia unit with 1,200 TPD refining capacity, captive power plant and oleochemical section.

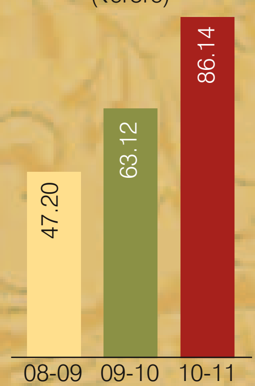
TPD = tonnes per day

Lajawaab taste, mazedaar results

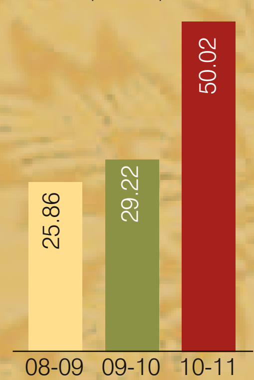
Gross sales
(₹crore)



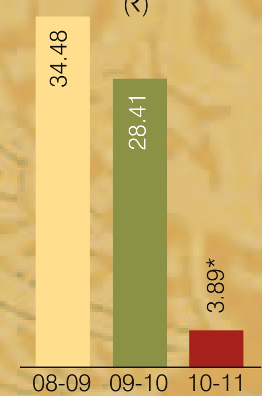
EBIDTA
(₹crore)



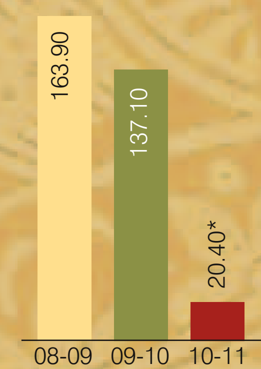
Profit after tax
(₹crore)



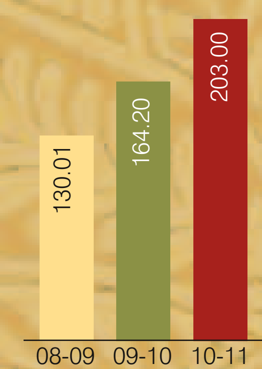
Earnings per share
(₹)



Book value
(₹)



Gross block
(₹crore)



*Stock split from one share of ₹10 each into 10 shares of Re. 1 each, so number of paid-up equity shares as on March 31, 2011 is 12,84,40,000.

Managing Director's review

"Growing ruralisation - rising incomes and aspirations - translated into our record tonnage sales and turnover in 2010-11."

Mr. S. N. Jhunjhunwala

Were you pleased with the Company's working during the financial year under review?

At JVL Agro, we are a faithful proxy of India's rural consumption story. The year under review was a microcosm of our business potential – growing incomes and rising consumption, represented by a phenomenon which we term as 'ruralisation'. A strengthening agrarian economy, job assurance through the Mahatma Gandhi National Rural Employment Scheme (MNREGA), large consumption pool of 0.7 bn and increased mirroring of urban consumption trends enhanced rural consumption. By virtue of being a faithful 'ruralisation' proxy, we reported record tonnage sales (3,76,493 MT) and turnover (₹2,180.79 crore) in 2010-11.

We projected revenues of ₹1,800 crore for the year under review and eventually finished with ₹2,180.79 crore, which indicates that the market performed better than what we expected. In fact, there is usually a seasonal lull every winter; in 2010-11, edible oil demand was robust and we closed the quarter with better numbers than ever. As it turned out, a growing consumer pull strengthened our margins year on year. I think this is the beginning of an interesting trend: While urban India is relatively satiated for the consumption of our products, rural India is extensively under-penetrated; the correction of this under-penetration will last for the next few decades, which represents the underlying foundation of our optimism.

What is the most potent tool to capitalise on 'ruralisation'?

Rural India is typically a great Indian bazaar. It is home to nearly 70% of India's population across 600,000 villages. With a view to tap this diverse and disparate consumer base, companies will need to go back to their drawing boards to redraw their rural distribution strategy and reach Tier-IV and Tier-V towns. At JVL Agro, we have been proactive in our response to external developments, as we now serve consumers through a distribution network comprising 5,200 dealers, resulting in an industry-leading market share across the geographies of our presence.

What was the highlight of the Company's working in 2010-11?

We operationalised our greenfield 500 TPD Bihar unit in 2009 and this facility reported a full 12-month working during the period under review as compared with 2009-10. This generated a volume thrust of 97169 MT and contributed 33% to our topline during the period under report. Moreover, we reported a 72% average overall capacity utilisation in 2010-11, which was higher than 2009-10. This added to a 19% realisation growth, enabling us to report our highest-ever turnover during the period under report.

Does this point to a growing strength in the Company's working?

In a volume-driven business, scale defines sustainability. I am proud to state that we are one of India's largest manufacturers of vanaspati and other value-added vegetable oils. Higher volumes made it possible for us to cover our fixed costs efficiently and strengthened our ability to bargain better for resources. The result is that our EBIDTA, cash profit and net profit increased 36%, 53% and 71% respectively during the period under report.

Why did the Company choose Bihar as the location of its greenfield plant?

Proactive policies, greater industrial security and an underserviced geography made Bihar an attractive investment destination. Besides, there is less competition in that state, we enjoyed a wide reach, we could maximise the use of railways for cost-efficiency, we enjoyed a lower cost structure than other states and the labour cost was attractively low.

There was another important reason: Income translates first into improved food consumption followed by spending on clothes and homes. This made Bihar – home to a tenth of India's population – one of the key consumption centres with a per capita edible oil consumption rising from 8-10 kg to the Indian average of 12-13 kg in the last few years. One of the key drivers of Bihar's 'ruralisation' was the MNREGA scheme in which the government guarantees a minimum 100 working days to beneficiaries. This accelerated reverse migration, with Bihar emerging as one of the beneficiaries.

Besides, by the virtue of having once stayed in urban locations, this population mirrors the health consciousness of its urban counterpart, making it imperative to commission an edible oil capacity in that state. As it turned out, all our sales were made within 390 kms of our plant, resulting in logistical efficiency.

What operational improvements were undertaken by the Company in 2010-11?

The following improvements strengthened our performance during the year under review:

- We reported a significant capacity utilisation at our Bihar unit, a significant achievement considering it was only the first year of plant operation in a business marked by cyclical demand patterns; we recorded a 93% capacity utilisation in our Varanasi plant as against over 80% in the previous year and 128% capacity utilisation in our Alwar (Rajasthan) unit as against over 80% in the previous year
- We switched resource acquisition from carry-and-forward, which included freight charges, to free-on-board, which excludes freight charges, to reduce logistics cost
- We chartered the vessel space through our Singapore subsidiary, opening up a new avenue for timely cost-effective raw material supply
- We implemented ERP, improving operational efficiencies through real-time information; we trained our manpower, resulting in higher productivity
- We expanded our sales and distribution network by reaching two new Indian states with a deepened penetration across our existing markets

How did the Company strengthen its competitive positioning during the year under review?

Over the years, we strengthened our competitive positioning through the following initiatives:

- We reinforced our vanaspati position through the largest Indian single-location vanaspati plant, accounting for about 20% of the organised North Indian vanaspati capacity
- We provide a comprehensive product solution to our customers under the Jhoola umbrella brand; this comprised vanaspati on the one hand and refined (palm oil and soya oil) and mustard oil on the other
- We widened our footprint from Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Uttarakhand, Jharkhand and

Bihar to the Northeast and Delhi, Punjab, Mizoram, Assam, Sikkim, Meghalaya, Arunachal Pradesh, West Bengal, among others, resulting in a footprint across North, Central and East India, which we expect will become a pan-Indian presence by 2015

The result is that JVL led the vanaspati market in Bihar and UP; it emerged among India's top three companies in refined palm oil, among the top three in West Bengal and Northeast states for mustard oil.

The Company intends to take this competitive positioning ahead through its greenfield Haldia plant. Will this compromise the strength of the Company's balance sheet?

We are engaged in establishing a greenfield 1,200 TPD facility at Haldia.

The Haldia project will enable us to extend our presence from landlocked states to port-based locations, providing us with the dual benefits of international raw material access and end-product sales. We will also look at setting up an oleochemical section.

The project, with a ₹150 crore capex, is funded through an optimum debt-equity ratio. The Haldia unit possesses a cumulative revenue potential of ₹1,000 crore considering the optimal 80% capacity utilisation and conservative realisations.

How does the Company expect to enhance shareholder value?

I will answer this from eight perspectives:

• One, our product caters to the price-sensitive bottom of India's income pyramid, which is going through the biggest income transition following the implementation of MNREGA and other debt waiver schemes

• Two, our brand value of is not fully reflected in our market capitalisation and the correction of this mismatch will lead to stock re-rating

• Three, we are looking to plantation acquisition, which will secure and strengthen our raw material access even as we possess a gearing of less than 1.0

• Four, even as service a region that can be classified as a country by itself (Bihar, Uttar Pradesh, Jharkhand, Madhya Pradesh, Chandigarh, Northeast India, West Bengal and Uttaranchal) we expect to commission two more manufacturing units - on India's West and South Coasts in upcoming years – which will facilitate a pan-India coverage

• Five, we augmented refined oil sales (value-added) in 2010-11 compared with previous year, strengthening margins, a trend that we expect will sustain

• Six, we reported a throughput of 350,000 to 400,000 MT in 2010-11, which we expect will rise to 450,000 MT in 2011-12 and a projected 600,000 MT in 2012-13; we expect to correspondingly grow our revenues to an estimated ₹2,500 crore in 2011-12 and a projected ₹4,000 crore by 2013-14

• Seven, we may progressively liquidate debt through our accruals even as our turnover rises, strengthening our interest cover and market capitalisation.

• Eight, we plan to use the sales and distribution channel created for launching other agro products which follow the same distribution channel such as rice and pulses, among others.

Strategic corporate pillars

Experience	JVL possesses over two decades of rich experience in the vegetable oil industry.
Product range	JVL provides an extensive range of vegetable oils comprising refined (palm oil and soya oil), saturated fats (vanaspati) and mustard oil.
Relationships	JVL enjoys long-term relationships with plantation owners in Indonesia and Malaysia ensuring timely and cost-effective raw material delivery.
Logistics	JVL's positioning as northern and Central India's largest crude oil importer translates into better bargaining and logistics competitiveness.
Brand	The Jhoola brand is available across 18 Indian states and two union territories, enjoying a market-leading share in Central India's edible oil market.
Scale	JVL's saturated fats manufacturing unit is the single-largest in India, resulting in optimised production and conversion costs.
Integration	JVL is integrated from plantation access to product packaging (18,00,000 HDPE jars per annum and 42,00,000 tins per annum as well as manufacturing container handles and caps).
Energy	JVL invested in a 3-MW captive power plant in its Varanasi facility, feeding 100% of the unit's requirements.
Quality	JVL is certified for the prestigious ISO 9001-2008.
Distribution	JVL enjoys an entrenched presence in North India through a distribution network comprising over 30 depots, over 5,200 dealers and thousands of retail outlets.
Customisation	JVL caters to the needs of various Indian consumers through various packaging options ranging from 200 ml to 15 ltrs to 15 kg.
Customer-centric	JVL offers customers a superior price-value proposition in terms of product diversity, customisation and service.

At JVL, we are not just a food ingredient but an integral part of people's lives.

This relationship-centric approach resulted in millions of loyal consumers.

We strengthened our brand presence through the following initiatives:

- Strengthened our vanaspati production capacity from 25 TPD in 1990 to 1,350 TPD in 2010-11
- Expanded our footprint from Varanasi (UP) in 1989 (highest per capita vanaspati consumer), to Alwar (Rajasthan) in 2007 (India's largest mustard seed producer) to Dehri-on-sone (Bihar) in 2009 (among India's largest vanaspati and RBD palmolein markets)
- Expanded our presence from Central India to 18 states and two Union Territories

Result: Our turnover grew 33.21% CAGR over the four years leading to 2010-11, EBIDTA grew 43.81% CAGR and PAT grew 14.38% CAGR during the period.

Rural India is growing faster than ever before.

Enhanced income and awareness have translated into an emerging trend: An increasing number of consumers are particular about the cooking media being used, what they are eating and counting their calories.

JVL responded to this emerging trend through the following initiatives:

- Graduated from a single product offering (vanaspati) to value-added refined oils, emerging as a complete edible oil solutions provider
- Installed a membrane filtration system for fractionation to improve refined palm oil quality
- Maintained product consistency through a thorough check of raw materials, processes and finished goods
- Achieved highest food quality certifications from Prevention of Food Adulteration Act and vegetable oil product specification from the government; possesses certifications like ISO 9001-2008 and AGMARK for mustard oil.

Result: Even as the outlook appears positive for the country (rural household food expenditure was higher than 50% of the total rural expenditure in 2010-11), JVL expects to capitalise through growing investments in assets, products and efficiency.

₹76,000
Average annual rural household income grown at an 8% CAGR for 2005-2010

₹190 bn
Size of rural consumption, making it higher than Singapore's GDP

17%
CAGR of average annual household savings for 2005-2010

69%
Percentage of rural households possessing a bank account

₹332 bn
Union Budget expenditure on education in 2010

70%
Rise in number of literates from 60% in 2001 to 70% in 2010

Business enablers

A. Robust product portfolio

JVL enjoys a growing presence in four major edible oil categories – palm oil, soybean oil, mustard oil and vanaspati (hydrogenated vegetable oil). This wide positioning makes it possible for the Company to capitalise on more opportunities than single-product players. The Company is also among India's few large integrated players, better placed over small and mid-sized manufacturers in countering sectoral cyclicality. The Company's economies of scale translated into enhanced bargaining power, optimised production costs and superior product availability.

JVL's product portfolio

- Vanaspati/hydrogenated vegetable oil
- RBD palm oil
- RBD palm olein
- Refined soybean oil
- Mustard oil

B. Scale

JVL is among India's largest edible oil producers. Some of the production highlights in 2010-11 comprise:

- Increased vanaspati production from 1,14,526 MT in 2009-10 to 1,24,570 MT
- Increased refined oil (palm oil and soya oil) production from 84,395 MT in 2009-10 to 1,25,239 MT
- Increased mustard oil production from 26,486 MT in 2009-10 to 41,483 MT
- Increased de-oiled cake production from 69,638 MT in 2009-10 to 72,321 MT
- Increased fatty acid oil production from 6,825 MT in 2009-10 to 12,823 MT

The increase in production was derived from the following:

- The greenfield Bihar unit produced 51,734 MT of refined oils in 2010-11 as against 16,369 MT in 2009-10
- The Varanasi fractionation capacity expanded from 300 TPD to 700 TPD

Our assets

Products	Installed capacity (MT per annum)
Vanaspati (Varanasi, UP)	84,000
Red palm olein and esterified oil (Varanasi, UP)	90,000
Mustard oil (Alwar, Rajasthan)	81,000
Refined oil/vanaspati (Dehri-on-sone, Bihar)	1,50,000

C. Location

JVL's manufacturing facilities are located strategically to capture consumption upturns:

- **Varanasi (Uttar Pradesh):** Located in eastern UP, which accounts for the highest vanaspati per capita consumption in India
- **Dehri-on-sone (Bihar):** Located in a state that is among India's largest vanaspati and RBD palm olein markets
- **Alwar (Rajasthan):** Located proximate to raw material sources as Rajasthan is India's largest mustard seed producer
- **Haldia (West Bengal):** This upcoming plant is located near the Haldia port, facilitating international trade

The Company transports imported raw material (crude palm oil) from Kolkata port (700 km from Varanasi and 600 km from Pahleza) through its rail network, which is cheaper than road transportation. Besides, the upcoming plant's proximity to the Haldia port is expected to reduce freight and will prove cheaper than transporting by trucks.

D. Product utility and acceptance

Palm oil is the most affordable of all oils (mustard, soybean and sunflower) used in refined and saturated forms. It also possesses a higher nutrition value than other edible oils and is largely used as a cooking medium by mid- and lower-income groups, comprising 70% of India's population.

The share of refined palm oil and saturated fats in the edible oil market stands at 50% and 15% respectively. The demand for refined oil has grown steadily, owing to rising incomes and health awareness. The cumulative refined palm oil demand in India is pegged at over 7 mn MT per annum. Vanaspati, refined oils and mustard oil are also used as a cooking medium in kitchens, hotels, restaurants, sweet makers/*halwaais, namkeen* makers and industrial consumers (bakers and confectioners). While vanaspati is essentially saturated fat, refined and mustard oil are unsaturated fats.

Vanaspati is widely consumed in UP and Bihar and refined palm olein is fast-emerging as a popular cooking medium in both these states. Mustard oil is widely consumed in eastern Uttar Pradesh and Bihar while refined soybean oil is a popular cooking medium in North India. These products enjoy steady round-the-year consumption and are less prone to demand cyclicality. De-oiled cake is used for cattle and poultry feed.

E. Markets and brand

The edible oil industry comprises big, small and MNC players. The Company faces competition from national and regional players. International competitors comprise multinational players like Cargill India, Bunge India and Louis Dreyfus Commodities, while Indian competitors comprise Ruchi Soya, Adani Wilmar, Gokul Refoils and Solvents, K S Oils, Emami Biotech, among others. The Company has grow, competition notwithstanding, on account of direct raw material import, scale economies and logistics advantages.

The Company markets products under the Jhoola, Payal and Joohi umbrella brands.

- Vanaspati is sold under the Jhoola brand
- RBD palm olein under Jhoola and Payal brands
- Refined soybean oil under Jhoola Health brand
- Mustard oil under Jhoola, Joohi and Shankar brands

Our brands are easily recognised and well-accepted. They are sold in diverse pack sizes (200 ml, 500 ml, 1 litres, 2 litres, 5 litres, 10 litres, 15 litres and 15 kg) to meet various requirements. Besides household consumers, JVL also caters to institutional clients from the hospitality, bakery and confectionery sectors. The Company's stock keeping units comprise 11 for vanaspati, five each for refined soyabean and palm oil and eight for mustard oil.

The Company's biggest consumption centres comprise Uttar Pradesh and Bihar, contributing over 70% of revenues. The Company enjoys about a 30% market share across these core markets.

F. Quality and R&D

At JVL, our quality policy is enshrined in our ability to consistently meet customer expectations through process and manufacturing improvements. We possess confidence-enhancing certifications like ISO 9001-2008 and AGMARK for newly introduced mustard oil. We also enjoy certifications from high-quality standard authorities like PFA (Prevention of Food Adulteration Act) and VOP (vegetable oil product) specification from the Government of India. Our quality infrastructure comprises centralised laboratories for inspecting incoming raw material quality (oils, packaging material and chemicals), intermediate materials and finished products, leading to negligible rejection rates.

G. Raw material

Our principal raw materials include crude palm oil, soybean degum/refined oil and mustard seeds. We import crude palm oil from Indonesia and Malaysia, soybean degum from Argentina and Brazil. These are also purchased from within the country. As a prudent policy, we source mustard seeds ahead of requirement.

Procurement strengths

- JVL is a direct importer of its principal raw material
- It is among India's largest manufacturers and marketers of vanaspati, strengthening bargaining power
- Its brands are prominent across target markets, resulting in a premium
- It enjoys logistical advantages across primary markets owing to its proximity to key consumption centres

H. Information technology

Information technology is JVL's backbone, networking its offices, manufacturing facilities and depots and resulting in a quicker access to real-time information. It currently uses ERP (based on SQL).

At JVL, the implementation of MIS links technology, information and people. The Company established day-to-day production information based on the physical stock of commodities, thereby controlling losses. It developed a techno-commercial hub of 10-15 competent people resulting in a better coordination between production, planning and marketing.