

ANNUAL REPORT 2008-09

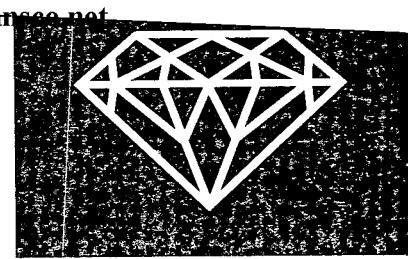
KOHINOOR FOODS

SERVING AUTHENTICITY



Kohinoor
FOODS LIMITED

THE TASTE
OF AUTHENTICITY



Report  junction.com

Contents

Chairman's message	2
Directors' report and management discussion & analysis	4
Auditors' report	21
Balance sheet	24
Profit & loss account	25
Schedules	26
Consolidated balance sheet,	43
Profit & loss account and schedules	44
Subsidiary companies	46
Joint venture company	54

Registered Office : 201, Vipps Centre, Masjid Moth
 Corporate Office and Greater Kailash II, New Delhi-110 048
 Share Department Tel: +91-11-41635757 (10 Lines)
 Fax: +91-11-41638586/87
 E-mail: info@kohinoorfoods.in
 Web: www.kohinoorfoods.in

Works : 50-51 Milestone, G.T. Karnal Road
 Murthal, Dist. Sonapat (Haryana)
 : 71, Libaspur, Bahalgarh
 Dist. Sonapat, (Haryana)

Wholly Owned : Kohinoor Foods USA INC.
 Subsidiary Companies 40, Northfield Avenue
 Edison, NJ 08837
 Tel.: 1(732) 8684400
 Fax: 1(732) 8684404
 Email: info@kohinoorfoods.com
 Web: www.kohinoorfoods.com
 : Indo European Foods Limited
 Kohinoor House, 40 Langer Road
 Felixstowe, Suffolk, IP 11 2BW
 United Kingdom
 Tel: 01394 276 700
 Fax: 01394 276 771
 E-mail: info@kohinoorfoods.co.uk
 : Sachdeva Brothers Limited
 50-51 Milestone, G.T. Karnal Road
 Murthal, Dist. Sonapat (Haryana)

Joint Venture : Rich Rice Raisers Factory L.L.C.
 Company Post Box No. 15542
 Al Quoz Industrial Area
 3rd Interchange, Sh Zayed Road
 Dubai, U.A.E.
 Tel: (9714) 3382800
 Fax: (9714) 3382900
 E-mail: richrice@emirates.net.ae

Board of Directors:

-Mr Jugal Kishore Arora	Chairman
-Mr Satnam Arora	Jt. Managing Director
-Mr Gurnam Arora	Jt. Managing Director
-Mr Vijay Burman	Non-Executive Director
-Mr Anil Bhatia	Non-Executive Director
-Mr Vijay Parkash Aggarwal	Non-Executive Director

Company Secretary:

Mr. Rama Kant

Auditors:

M/s Nath Ahuja & Co.
 Chartered Accountants

Bankers:

-Oriental Bank of Commerce
 -State Bank of India
 -Punjab National Bank
 -Allahabad Bank
 -Standard Chartered Bank
 -Indus Ind Bank
 -HDFC Bank Limited
 -IDBI Bank
 -IDBI Bank Ltd.

Transfer Agents:

M/s Skyline Financial Services Pvt. Ltd.
 246, First Floor, Sant Nagar, East Of Kailash,
 New Delhi-110065
 Tel: 26292680/82
 Fax: 91-11-26292681

Listing of Equity Shares :

-National Stock Exchange of India Ltd.
 -Bombay Stock Exchange Ltd.

Chairman's Message



Dear Shareholders,

I inform you with immense pleasure that Kohinoor Foods Limited is well on its way of becoming one of the most respected names for multi-product food range, globally. The appetite for our range of food products is growing across the world. With several newly launched products in the market, we can only expect greater times in the future.

With Kohinoor being introduced to several new countries, the company has increased on retail chains that stock Kohinoor products across the globe.

Your company has not only sustained its percentage of branded product sales but has also continued to focus on the domestic market, that is changing rapidly.

Focusing on the Domestic Market

Our domestic market contributes 44% to the total turnover of the company and the domestic branded basmati rice is growing at a steady pace. We firmly believe that the domestic market plays a key role in driving the sales of branded basmati. That's why, we are pursuing the domestic market aggressively and our efforts have already won us several prestigious institutional clients like Taj group of hotels, ITC - Welcome group of hotels, The Park, The Leela, Radisson, Le Meridian, IRCTC, Sky Gourmet, Holiday Inn and the list is quite long.

Building sustain ability & growth in the food business

This year saw us further expanding our product portfolio by introducing new products in the frozen food category. With the help of our distributors, we have strengthened our reach globally. We have sustained and developed a contract with a leading retail chain in the US for product lines of Kohinoor Foods and in the domestic market with new cities under our belt like Mumbai, Chandigarh, Punjab we have even developed better business in the existing cities like Hyderabad, Bangalore, Chennai, Delhi NCR. With the aim of taking our range to all the metro's & mini metro's of the country, we are off to a perfect start.

What sets us apart globally is that we offer 100% natural, authentic and delicious food products.

Empowering Our Global Distribution Network

As you may know, we have already made a mark on the retail market in the United Kingdom, to the extent that we have become the No. 2 brand in dry basmati. It is one of the fastest growing brands in TESCO. Our basmati rice are now exported to 60 countries. We have even captured the Saudi Arabian market, thanks to the hardwork of our exclusive distributor in that region. The exclusivity of our products took the Mauritians by storm as we became the largest selling rice brand in the region. Our changed business model helped us reach both ethnic and mainstream retailers. A study done by the Food Marketing Group in the US forecasts that Indian food will become the third most preferred choice after Italian and Mexican food in the country. This gives us a perfect chance to expand our horizons and capture the emerging market.

Sales from branded products

Today the revenue from the food business is Rs. 329.22mn constituting 5.1% of the turnover but we expect this business to contribute to 25% of sales by 2012. Thus we are building a strong foundation and will make sure that we reach newer milestones in the future.

During 2009, your company's sale increased from Rs. 6350.63 million to Rs. 6357.46 million only. The causes of this were mainly the economic slowdown and our decision to reduce our dependence on unbranded and commodity sales.

Our journey from a modest rice company to a recognized food brand across the globe gives me the courage to commit that we will continue seeking newer opportunities and markets in the coming future.

Let me end by thanking all our customers, distributors, vendors, culinary specialists and employees for helping us through this journey. And special thanks to all shareholders, for their continued trust and support.

Yours sincerely,

Jugal Kishore Arora

Chairman

Report  Junction.com

Director's Report and Management Discussion & Analysis

The following report should be read in conjunction with the audited financial statements and notes for the year ended March 31, 2009 and the audited financial statements and notes for the year ended March 31, 2008. This report contains forward looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, market position, expenditures, and financial results, are forward looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. The company's actual results, performance or achievements could thus differ materially from those projected in any such forward-looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

Financial Overview

The Annual Accounts and the Annual General Meeting

As per the order dated 18th September, 2008 passed by the Hon'ble Company Law Board in C.P. No. 12/111A(ND) of 2008, the Nineteenth Annual General Meeting scheduled to be held on 27th September, 2008 was deferred till further orders. The said Annual General Meeting is now being held at 10.00 am on 29th April, 2010 at 'The Little Theatre Group, Copernicus Marg, New Delhi 110 001'. The Company Law Board had also ordered that no Shareholders' Meeting shall be convened and held till the disposal of the said C.P. No. 12/111A(ND) of 2008. Therefore even the twentieth Annual General Meeting, could not be held in due time.

Consequent upon filing of C.A. No. 08 of 2010 in C.P. No. 12/111A (ND) of 2008, the Hon'ble Company Law Board as per its order dated 22nd February, 2010 has allowed the Company to hold the Annual General Meeting for the year ending on 31st March, 2008 and 31st March, 2009 after giving due notices. The Hon'ble Company Law Board has also allowed the Company to convene its General meetings from time to time as per law. Therefore the twentieth Annual General Meeting

is now being convened accordingly.

Since, the Annual Accounts for the year ended on 31st March, 2008 are proposed to be laid before the Company in the Annual General Meeting scheduled to be held at 10.00 a.m. on 29th April, 2010, the previous year figures in the Audited Annual Accounts for the year ended on 31st March, 2009 have been included without having been laid before the Company in Annual General Meeting.

Results from operations

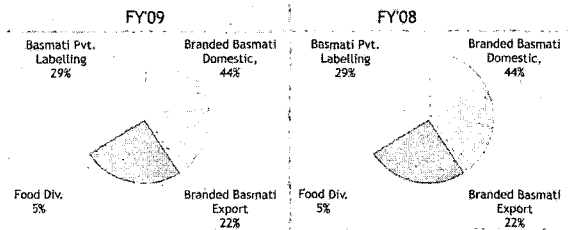
The year saw us grow at a steady pace with net sales of Rs. 6357.46 million. The major reason of this pace were the economic slowdown and inconsistent government policies. However, looking at the circumstances that the company was facing, we fared reasonably well.

Particulars	FY'09	FY'08
Net Sales & Other Income	6388.85	6371.63
Profit before Depreciation	437.62	532.61
Depreciation	107.19	103.89
Profit before Tax	330.43	428.71
Less:		
Extra Ordinary Items	500.09	375.95
Profit after Tax Ordinary Items	(169.66)	52.76
Provision for Tax	(61.68)	(0.47)
Profit after Tax	(107.98)	53.23
Figures in Rs Million		

With an increased sale of branded basmati rice and food segments, operating profit margins witnessed a marginal improvement. The EBITDA margin (earnings before interest, depreciation, tax and amortization) of the company increased to 15.23% in FY'09 from 13.35% in the previous year. However, there was a net loss after tax of Rs. 107.98mn in comparison to in Net Profit after tax of Rs 53.23mn in FY'08.

Segmental Overview

Kohinoor Foods is on the right track to become a global food company. A strong distribution network has enabled us to establish better relationships with several large-scale retailers across the world. We export rice to 60 countries and the ready to eat and ready to cook are exported to 22 countries, which also means that millions worldwide are savoring our quality food products, further expanding its reach by exporting frozen foods to 11 countries.



Branded Basmati Rice

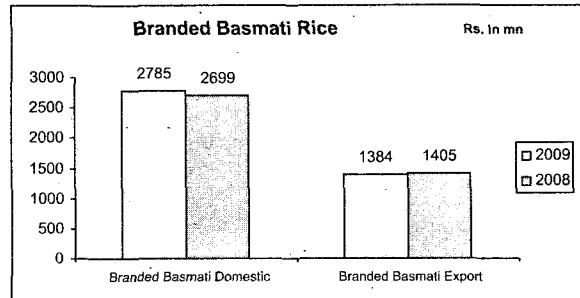
Kohinoor Foods with currently 220 distributors is taking the world by storm with over 3,50,000 retail outlets across the globe, it can only get bigger and better. With continuously launching new products in the market, your company has excelled in brown basmati rice and organic basmati rice. The company's focus has continued to be consistently improve the share of branded products in total turnover.

Domestic Market

In the domestic market, your company continues to be the undisputed leader when it comes to basmati rice. The domestic retail industry is growing explosively, and to stay ahead of all competition, Kohinoor has put together a dedicated team to build and manage relationships with all the emerging retail chains. The company's wide range of branded basmati rice is displayed on the shelves of all major retailers in the country including Reliance, Pantaloon Retail (Food Bazaar), Spencers, Shoprite, MORE (AV Birla Group), Hyper City, Vishal Megamart, Fabmall, SPINACH, BIG APPLE, SPAR and Heritage during the year. The company has increased penetration of branded basmati rice in Reliance Retail chain of stores; with this the company has developed a strong foothold in over ten leading domestic retail chains. That's not all. The company is also aligned with the big names in hospitality like Radisson, Le Merdien, Leela etc.

Today, the company has 175 distributors and more than 800 stockiest and its products are available in more than 285000 retail outlets in the country. Impressive as these facts sound right now, they are bound to get only better.

Sales of branded basmati rice in the domestic market increased by 3.21% to Rs 2785.41million in FY'09 as compared to Rs 2698.70 million in the previous fiscal.



Export Market

Your company has continued its focus on increasing penetration to newer markets and sustain the existing ones taking the total list of customer countries to over 60.

Branded basmati exports shows a dip of 1.5% in FY'09 to Rs 1384.27 from Rs 1405.32.

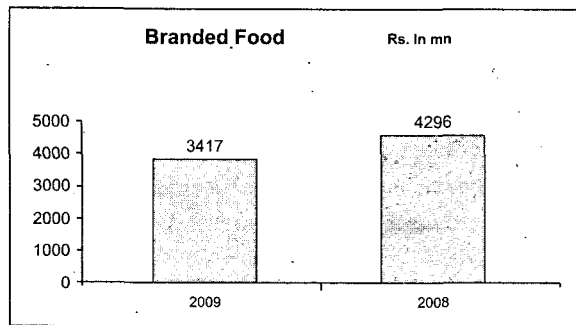
Your company has sustained its export of Kohinoor branded basmati to Saudi Arabia, the largest market for basmati rice in the world with his strong distributor. Kohinoor Foods has been exporting basmati rice to Saudi Arabia under private labels for the last ten years and understands the market. The branded products have received tremendous response and are now available in leading retail stores of the region.

With the overseas offices in US, UK and Dubai, Kohinoor Foods is aggressively pursuing the mainstream markets in these regions. Your company's Basmati rice has already entered the mainstream markets of US, UK, Australia, Switzerland, Mauritius, Romania and the Middle East. It is today retailed across the world in prestigious stores like Tesco and Somerfield in UK, Coles and Woolworths in Australia, Metro and Globus in Switzerland and Romania, Carrefour and Geant Stores in the Middle East.

Food Business

Kohinoor Foods foresaw that the future was in the high-margin foods business and forayed into branded and packaged convenience foods in 2004 with authentic Indian ready-to-eat curries and ready-meal preparations. Indian food is now popular across the world and your company has a strong presence in 22 countries and its food products are available in world's leading retail outlets such as Tesco, Somerfield, and ASDA in UK; Krogers, Target and Whole Foods in the US; Coles and Woolworths in Australia; and premium stores like Hankyu, Daimaru and Seijo Ishi in Japan.

The food business contributes to a modest 5% of the turnover currently but is targeted to contribute to 25% by 2012. Your company has a strong commitment to building a global food brand and is putting in place a strong foundation.



Strengthening the Frozen Foods business

Kohinoor Foods has created several new products in the frozen foods category including Indian Snacks and finger foods. Your company has exported frozen foods to many countries including USA, UK, Mauritius, Singapore, Australia, New Zealand, Bahrain and Switzerland. In the domestic market, Kohinoor Foods has already launched frozen foods in Delhi and NCR, Bangalore, Hyderabad and Mumbai, which has a huge market for the frozen food category.

Strengthening presence in domestic market

Kohinoor Foods has started to strengthen its presence in the domestic market for foods and has started building an independent distribution network. The company has won several institutional customers during the year.

Commodity business

Kohinoor Foods has made a conscious effort to move out of the commodity business, and as a result, over the years, it has been reducing the share of unbranded and commodity sales in turnover. The major turnover in the commodity business comes from non-basmati rice, which the company is supplying to certain buyers who are buying basmati rice exclusively from Kohinoor Foods.

Overview

The Indian market offers a huge potential for the food processing industry. According to the Confederation of Indian Industry (CII), the Indian food industry is estimated to be worth over \$200 billion and is

expected to grow to \$310 billion by 2015. Even though India is one of the world's largest food producers, it accounts for less than 1.5% of international trade and presents a huge opportunity. However we plan to change that.

Processed food market is the most important segment of the food industry accounting for over 32% of the total food market (Source: ibef). While India has an abundant supply of food, the food processing industry is still nascent: only 2% of fruit and vegetables; and 15% of milk produced are processed. Despite this, the processed food industry in India ranks 5th in size, representing 6.3% of GDP. It accounts for 13% of the country's exports and 6% of total industrial investment. The industry size is estimated at \$70 billion, including \$22 billion of value-added products.

Convenience food:

The Food Service business in India is seeing explosive growth driven by increasing incomes, changing lifestyles, increasing urbanization and changing demographics where the average age in working population is decreasing. According to Euromonitor International a market research company, the amount of money Indians spend on meals outside the home has more than doubled in the past decade, to about \$5 billion a year and is expected to double again in about half that time. With the increase of women in the working population, convenience foods are also likely to become popular. The emerging large retail chains make these foods more easily accessible. According to the Ministry of Food Processing the industry size of the semi-processed and ready-to-eat packaged food industry is over \$1 billion and is growing at a CAGR of 20%.

Basmati rice:

Among the rice growing countries, India has the largest area (40.2 million hectares) followed by China and Bangladesh. India and Pakistan grow and export aromatic rice and the main buyers are the Middle East and Europe. The global production of basmati rice is approximately 2.3 million tons, out of which India's share is a whopping 74%. Total basmati rice market in India is estimated at Rs 10 billion, out of which branded basmati rice market is approximately 50% in value and 33% in volume terms.

The domestic branded basmati market is growing rapidly driven by rising incomes and changing lifestyle. The major driver for branded basmati sales

will be organized retail which is growing at 9% p.a. and is expected to grow by 30% in 5 years. As organized retail penetrates semi-urban and rural areas branded basmati penetration to rural areas is expected to increase.

Moving up the value chain

After establishing its brand in the ambient foods market, your company extended its product offerings by adding frozen foods to its portfolio. During the year KFL has added several new products in the frozen foods category including Indian Snacks (like Samosas, Aloo Bondas, Kebabs, Paneer Tikkas etc.), Indian breads (Naans, Parathas and Kulchas etc.) and Indian curries and Biryani.

Spices The next growth sector

Your company has been exporting authentic Indian spices to overseas markets like US, UK, Australia, Singapore, Mauritius and Japan for the last few years. Your company has launched Kohinoor spices in the domestic market to leverage the brand strength of Kohinoor and to seize the opportunity of a growing market. The company has launched a full range of authentic Indian spices both basic and value added in the domestic market.

Strengthening presence in key international markets

During the year under review, your company has strengthened its presence in leading international markets and also made successful inroads into new markets. It entered several new markets for the branded basmati segment including Saudi Arabia, the largest market of basmati rice in the world. It also entered new countries for the food business including Bahrain and Kuwait. Today, the company's products are available at over 3,50,000 retail outlets across the globe and its clientele includes leading retail chains world over.

The company has 2 wholly-owned subsidiaries in US and UK and a joint venture company in Dubai to look after these markets, which jointly form the largest market for food.

USA operations

USA is a large potential market for Indian food products. According to the US-based Food Marketing Group, Indian food is growing rapidly and is expected to overtake Chinese and Kosher food and occupy the No. 3 position (below Italian and Mexican) in the next 3 years.

Realizing the strong demand in that country, we established our wholly-owned subsidiary in New Jersey, Kohinoor Foods USA, Inc. in the year 2000. KFUI is presently supplying to leading mainstream stores such as Whole Foods, Krogers, select stores of Walmart, BJ's Club Stores and Costco apart from almost all leading ethnic Indian stores in the US.

During the year under review, the US sales grew to \$ 15.76mn in FY09 as compared to \$ 14.81mn in the previous year. The company has also set up a different division in the US to get into the main stream retail chains.

UK operations

Indian food is hugely popular in UK and enjoys mainstream acceptance. There are more than 10,000 Indian restaurants in greater London alone. Kohinoor Foods had set up Indo European Foods Limited, a wholly-owned subsidiary in the year 2001 in UK. The subsidiary owns a rice processing facility at the port city of Felixstowe with a milling capacity of 8 MT per hour. It presently services mainstream stores like Tesco, Somerfield, ASDA Walmart, Bestway, Costco, Tesco, Ireland and almost all leading ethnic stores in UK.

Indo European Foods has taken Kohinoor to a new high. The brand Kohinoor has grown by leaps and bounds and has become the No. 2 brand in dry basmati in UK in a very short span of time (Source: AC Nielsen). Kohinoor is one of the fastest growing brands in TESCO (50% YoY). Kohinoor today is recognized as the 4th most favored food brand in the UK (Source: Ethnic Focus Research, Jan 2007 UK).

During the year under review, the UK sales increased to £ 7.51mn in FY09 as compared to £ 7.50mn in the previous year. We are continuously trying to consolidate its position in an increasingly competitive environment brought about by the credits crunch and a cost conscious consuming public. We are also trying for more effective use of our existing resources and cost control so that it results in an improved profit. The management is also keeping a continuous check on overall progress of the company by the reference to certain financial key performance indicators.

Dubai Operations

Rich Rice Raisers Factory LLC (RRR) was established as a joint venture company in the financial year 2001 in Dubai to augment its marketing strengths in the



middle-east region. RRR has a small rice processing facility in Dubai besides a full-fledged marketing office. RRR is presently supplying Kohinoor range of basmati rice and other food products in mainstream stores like Carrefour, Lulu's Chain and Geant Stores. Kohinoor Foods caters to the Iranian market from its Dubai base and intends to tap the Iraq market.

During the year under review, the Dubai sales increased to 131.8mn DHS mn in FY09 as compared to 97mn DHS in the previous year.

Strengthening domestic presence for food business

Kohinoor Foods has also taken measures to strengthen its presence in the domestic market for foods business. It has set up an independent distribution unit for marketing its range of food products in India and building relationships with modern retail stores. The Company has also tied up with international chains like Pizza Hut, Papa John's, Pulse Foods for supplies to the domestic market.

Business outlook

A rapidly growing domestic economy with changing consumption patterns presents a huge opportunity for your company going forward. Your company is committed to building a global food brand and has drawn up a strategy to continue its focus on the branded foods business. It will continue to introduce new products and penetrate new markets, overseas.

Focus on branded business

We will continue our focus on branded product sales and capitalize on the high margin convenience foods segment. We believe that 90% of our turnover would come from the branded segment (Basmati rice and Food business) by FY 2012

We expect the food business to contribute 25% of our turnover by FY 2012.

After the successful launch of frozen foods, your company is eyeing the much larger chilled foods business in UK and India to further consolidate its position as a global player in this arena.

International market

The company plans to enter into more big retail formats across the world, in mainstream markets. Major focus would be on US and UK, the largest markets for food products in the world.

Your company intends to acquire major market share of US ethnic food market by leveraging distribution centers in five major cities of US.

We aim to add at least another 25 countries to our list of customer countries in the next 2 years in the food business.

Risks & concerns

Macro-economic factors like recession, subdued demand and political uncertainty may affect the business of the Company as also the industry at large. The company is aware that uncertainties in business offer opportunities as well as downside risks and thus has identified and put in place mitigation tools for the same. Some key risk areas are:

Procurement risk: Adequate availability of key raw materials at the right prices is crucial for the Company. Being a generic natural product with low yield concentrated in a small region of the World, production of Basmati depends on the vagaries of nature. Therefore, any disruption in the supply due to a natural or other calamity or violent changes in the cost structure could adversely affect the Company's ability to reach its consumers with the right value proposition. However, we are ready with plans that might help us at such times.

However, the company's long term relationship with farmers built on trust ensures constant supply and thus over the years it has not faced any procurement problems. Also, adequacy of irrigation facilities in the Basmati producing regions mitigates these uncertainties.

High working capital requirement: Basmati rice requires to be aged for 9-12 months before selling, leading to huge working capital requirements. This results in low ROCE for the industry. Combating this risk, efficient working capital management system has been set in place by the company and cash flow is monitored on daily basis.

Intense competition from unorganized sector: Another characteristic of this industry is the presence of unorganised sector offering basmati in loose unbranded form which intensifies competition. The company is moving towards branded products and has invested significantly in building strong brands which helps differentiate their product.