Kohinoor
FOODS LIMITED

THE TASTE
OF AUTHENTICITY

Serving Authenticity

ANNUAL REPORT
2010-11

Kohinoor FOODS LIMITED
THE TASTE OF AUTHENTICITY

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Serving Authenticity

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. Road
		Murthal, Dist. Sonepat (Haryana)
		• 71, Libaspur, Bahalgarh
		Dist. Sonepat, (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 Private Limited
		201, Vipps Centre, Masjid Moth,
		Greater Kailash-II, New Delhi-110048
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 & GM (Legal) Mr. Rama Kant

Auditors M/s Nath Ahuja
Chartered Accountants

Bankers
Oriental Bank of Commerce
State Bank of India
Punjab National Bank
Allahabad Bank
Standard Chartered Bank
Indusland Bank
HDFC Bank Limited
ICICI Bank Ltd.
IDBI Bank Ltd.
Bank of India
Corporation Bank
HSBC Bank
Axis Bank Ltd.
DBS Bank Ltd.
Kotak Mahindra Bank Ltd.
Yes Bank
Deutsche Bank

Transfer Agents
M/s Skyline Financial Services Pvt. Ltd.
D-153A, 1st Floor, Okhla Industrial Area, Phase -I
New Delhi-110020, Ph.: 011-26812682, 83, 84

Listing of Equity Shares
National Stock Exchange of India Ltd.
Bombay Stock Exchange Ltd.

Depositories
National Securities Depository Ltd. (NSDL)
Central Depository Services (INDIA) Ltd. (CDSL)

Chairman's Message

Dear Fellow Shareowners,

Greetings!

The Financial Year 2010-11 has been quite promising and challenging for Kohinoor Foods Limited. Overall, the Company achieved greater heights this year. The results were quite promising in the Domestic Market. While in the Export Markets, like other companies, our Company also went through certain ups & downs in the business. Global factors, especially in the Middle East, which pulled down the business of so many industries, also affected the growth pattern of our Company.

This year, the Domestic Sales grew by 48.42% which helped the Company to achieve a total turnover of Rs. 906 crores.

Largely, the Company's focus on Kohinoor Platinum, Gold & Silver helped it a lot in gaining shares in both the Domestic & the Export markets. The other factors that played a crucial role in building the Company's sales values were In-Depth penetrations in every potential market, Introduction of Kohinoor Limited Edition, a new product in Kohinoor's stable and the business generated through New Avenues and the Heat & Eat range of products of the Company.

With a vision of bringing authentic Indian flavours to people all over the world, we want your company Kohinoor Foods to become one of the leading name, not only in the Rice, but the entire Food category, that too worldwide. In this endeavor, we would keep developing food products that help us come closer to achieving our vision. We will continue to follow our successful strategies and try every step to make our future brighter & better. We would focus on improving our portfolio, increasing efficiency, product innovation and expanding our business in order to get close to our ultimate goal for the company.

I am grateful to the Board of Directors for their unwavering support and guidance. I also take this opportunity to express my gratitude to all our stakeholders, who have shown their trust in us and have extended their constant support.

With best wishes,
Sincerely

Jugal Kishore Arora
Chairman

"The Visionaries of KOHINOOR"

Mr. Gurnam Arora, Mr. Jugal Kishore Arora & Mr. Satnam Arora

Directors' 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, 2011 and the audited financial statements and notes for the year ended March 31, 2010. 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.

Your Directors have pleasure in presenting the --- Annual Report and the Audited Annual Accounts of the Company for the financial year ended 31st March, 2011.

As a major strategic step, the Company is transferring its business relating to (i) manufacturing, processing, finishing, marketing, trading, distributing, importing, exporting and/or supply of food products, including ready to eat products, cook-in sauces, cooking pastes, spices, seasonings and frozen food; and (ii) the marketing, trading, selling and distributing of rice products in the territory of India along with its Food Factory situated at Bahalgarh, Haryana (collectively the "Business") together with all the assets and liabilities, employees, contracts, licenses, agreements etc, as a going concern on a slump sale to M/s Kohinoor Speciality Foods India Private Limited a proposed Joint Collaboration with M/s McCormick Ingredients Southeast Asia Private Limited, Singapore.

Company – In General

Synonymous with the fine taste of India in its absolute authentic form, the sole objective of Kohinoor Foods Limited, since its inception, has been to make the world experience the true Indian flavor. Just some of the reasons why it offers an extensive range that caters to consumers' need in all parts of the world – a wide variety of Basmati Rice; range of Healthy Ready to Eat Indian Curries, Meals & Desserts; Range of Frozen Indian Breads & Snacks; different kinds of Spices & Seasonings; unique range of Readymade Gravies & variety of Cooking Pastes. Today, the most powerful brand of the Company "Kohinoor", is a household name not only in India, but also in the countries like USA, UK, Middle East, Canada, Japan, Australia, Singapore & other European countries. Today, the brand 'Kohinoor' is known in more than 60 countries worldwide.

In this endeavor of serving only the authentic, this year, Kohinoor Foods has achieved another landmark:

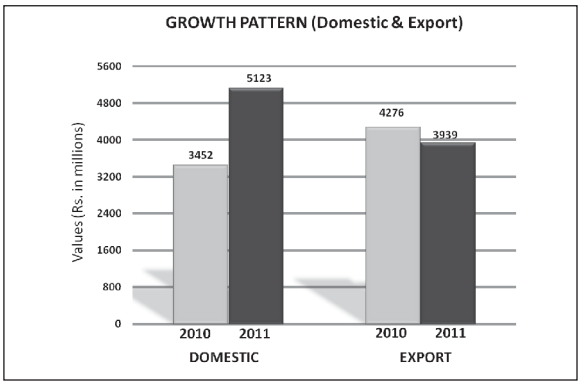
Financial Overview

The year under review has been quite promising and challenging for the Company. With an Overall Turnover growth of 17.3% vis-a-vis last year's performance. The Company's EBIDTA margin (Earnings before Interest, Depreciation, Tax & Amortization) has been 12.1% of the turnover in FY'11 compared to 14.98% in the previous year.

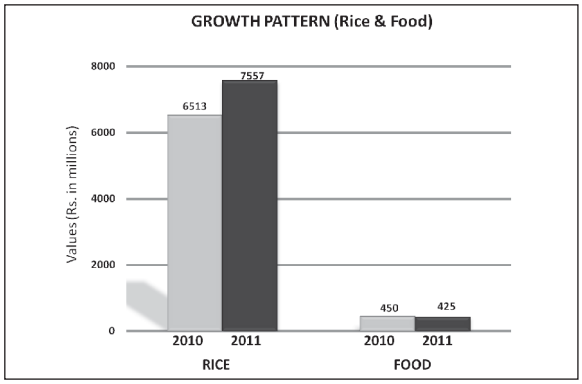
Particulars	FY'11	FY'10
Net Sales & Other Income	9,075.65	7,748.48
Profit before Depreciation	297.27	500.01
Depreciation	79.92	102.12
Profit before Tax	217.35	397.89
Less:		
Extra Ordinary Items	540.55	290.74
Profit after Tax ordinary Items	(323.20)	107.15
Provision for Tax	(88.37)	24.91
Profit after Tax	(234.83)	82.24
Figures in Rs. Million		

Operations

For the year under review, the Company has shown positive growth in the Domestic market, while the growth dipped a little in the Export markets vis-a-vis last year's results. As shown below, the Domestic Sales grew by 48.42%, amounting to Rs. 5123 millions as against Rs.3452 millions in the previous year while the Export Sales came down by 7.88%, amounting to Rs.3939 millions as against Rs.4276 millions in the previous year.



The contribution made by the Basmati Rice to the Company's business was Rs.7557 millions as against Rs.6513 millions in the previous year, while the Food business contributed only Rs.425 millions as against Rs.450 millions in the previous year.



This year, the major contributors towards the Company's growth were:

1. Company's focus on Kohinoor Platinum, Gold & Silver - Kohinoor Platinum, Gold & Silver (PGS) has been one of the strongest moves that the Company took in the last few years. During this year, the Company focused on Kohinoor PGS in all possible areas in both, the Domestic & the Export market, especially in those areas like Saudi Arabia, Kuwait, United Kingdom, USA in the Export markets and Tamil Nadu, Andhra Pradesh, West Bengal, Karnataka, Gujarat, Maharashtra & Kerala in the Domestic market. Not only did this generate significant numbers for the Company, but it also built a strong equity for the Company's brand in all the markets.

2. Deeper & Broader Penetrations of Kohinoor products - With focus on Kohinoor PGS, the Company this year also invested its efforts in increasing the level of penetrations in both Domestic & the Export markets. Some new private label clients were added to the list - from countries like UAE, Saudi Arabia, USA, Kuwait, Canada, New Zealand, Jordan, Seychelles & Germany. Similarly, in the Domestic market, the availability of Kohinoor products have increased in areas like Tamil Nadu, Andhra Pradesh, Kerala, West Bengal, etc.

3. Introduction of Kohinoor Limited Edition in the market - Limited Edition was a new introduction that happened this year. Though this was introduced in the later part of the year, but with its presence, it has already started adding onto the equity that Kohinoor enjoys in all the markets worldwide.

4. Acceptance of Heat & Eat products - Though this is more valid for the Domestic market, but the new healthy range of India on Platter (IOP) enjoyed a good acceptance in lot of markets where Kohinoor is present as a brand. The range gained good numbers, especially in the Domestic market.

5. Stronger New Avenues - Some of the new avenues that were opened last year, did get the Company good numbers in terms of sales. Supplying Kohinoor range of products to Defence & CSD Canteens brought in concrete numbers this year to the Domestic market's Food business.

Factors that pulled down the Company's growth in export were:

1. Unrest in the Middle East Countries - The factor that changed the future of some of the countries also affected our business. On a broader perspective, the unrest in the Middle East made enough buyers a little skeptical about the businesses that they have been doing in their countries all this while. It did not stop our growth, but it did pull the growth down by few percentages. In an ideal scenario, had it not been this unrest, the Company would have recorded good numbers this year.

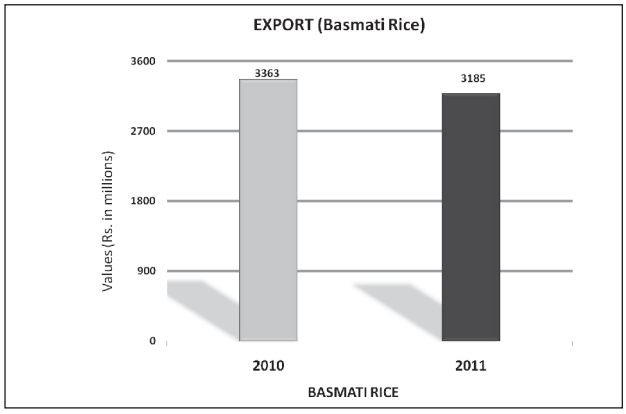
2. Stiff competition from Pakistani Basmati Rice - Though a common phenomena, but this year, Pakistani Basmati Rice was being offered at a very competitive rates in almost all the countries. It usually doesn't affect the sales of Indian Basmati Rice, but when the rates end up being very competitive, buyers do tend to fall for the Pakistani version of the Basmati Rice.

3. Skepticism for Iran - Though a high potential country, especially for Basmati Rice, but because of uncertainty on payments, this year, the Company did not gain a lot from this part of the world. In spite of this uncertainty, the Company is still trying its level best to explore this highly potential market.

EXPORT MARKETS

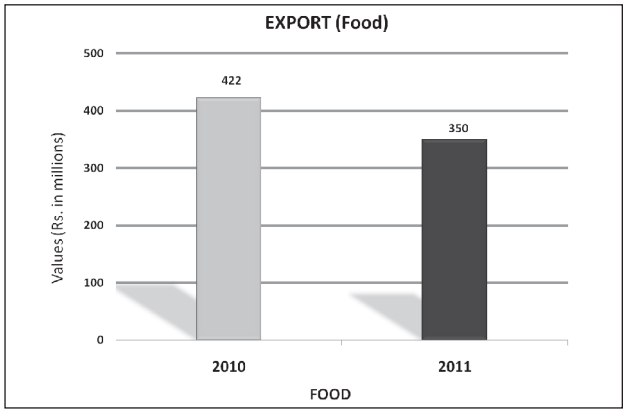
Exports - Basmati Rice

This year, in the Export of Basmati Rice, the Company did business of around Rs.3185 millions as against Rs.3363 millions in the previous year. Though the Company did business in more than 45 countries this year, but recorded a downfall of 5.29% in comparison to last year's business. Some of the countries that recorded positive growth in both Branded & Private Label business were UAE, UK, Saudi Arabia, USA, Kuwait, Bahrain, Australia, Canada, etc.



Exports - Food

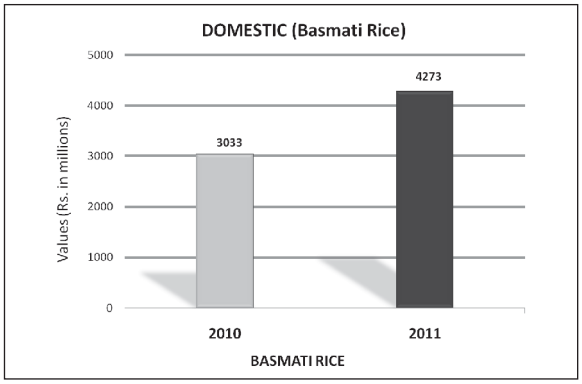
This year, the export of food products of Kohinoor recorded a business of Rs.350 millions only as against Rs.422 millions in the previous year. The downfall was majorly because of inconsistent orders from some of the Company's Private Label clients. However, this downfall has been balanced this year with two of the very big private label clients that the Company has added in its list. Hopefully, the current year would score good numbers by the end of the year.



DOMESTIC MARKETS

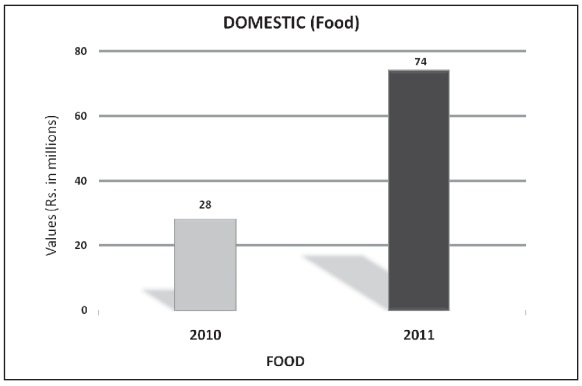
Domestic Market - Basmati Rice

In the Domestic market, the Company recorded a strong growth of 40.90% with a value of Rs.4273 millions in this financial year as against Rs. 3033 millions in the previous year, vis-a-vis last year's results that Company did fairly well in the Domestic market. Not only did it establishe its lead brands Kohinoor Platinum, Gold & Silver in the Indian market, but it also gained good numbers from it. Major factors contributing to this growth were - Focus on Kohinoor Platinum, Gold & Silver, In-depth penetrations in the potential markets, Increase in market coverage, Focus in Potential markets, Growth in the business through Modern Trade, Consequential contribution from the business through Institutions, etc.



Domestic Market - Food

In the Domestic market, the Company did fairly well in the Food business. The Company achieved a growth of 164.29% over the previous year's figure with Rs. 74 millions during this year as against Rs. 28 millions in the previous. The major contributor towards this growth has been the supplies of Heat & Eat products to the Defence & CSD Canteens and the business generated through products under Kohinoor India on Platter range.



USA Operations

The United States of America is a huge potential market for Indian food products. Not only the ethnic consumers, but even the mainstream consumers have a taste for Indian cuisines.

To capture this demand of Indian food in the USA, the Company has its wholly owned subsidiary based in New Jersey, Kohinoor Foods USA, Inc. that caters to the US and the Canada market. Through this subsidiary the Company has demonstrated its presence in both the Ethnic & the Mainstream segment of the business. Presently the Company has been supplying to all the Stand Alone Ethnic stores and to mainstream stores like Whole Foods, Costco, Walmart, etc. The subsidiary also works towards the gaining Pvt. Label business for both Indian Rice & Food products available in big chains.

UK Operations

Indian food is hugely popular in the United Kingdom and enjoys strong mainstream acceptance. With the help of Company's wholly owned subsidiary, Indo European Food Limited, based in London, the Company has been supplying Kohinoor products to Multiple Retail Stores like Tesco, ASDA, Morrison, etc., Wholesale and Cash & Carry like Booker, Costco, TRS, Wani's, etc., Discounters like TJ Morris, Lidl, etc. and more than 3000 Independent Ethnic Stores nationwide. The subsidiary also owns a rice processing facility at the port city of Felixstowe. The subsidiary also caters to the neighboring European countries.

In the last few years, this subsidiary of Company has achieved new heights and has played a very active role in shaking the competition in this market. In times to come, this position is only going to get better.

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 presently supplies Kohinoor range of basmati rice and other food products in mainstream stores like Carrefour, Lulu's Chain and Geant Stores. Kohinoor Foods also caters to the Iranian market from its Dubai base.

Overview - Food Processing Industry

The Indian market offers a huge potential for the food processing industry - more so because of the fact that it promotes two main growing factors of our Indian Economy - Industry & Agriculture.

During the last one decade, India moved from a position of scarcity to surplus in Food. Given the trade in production of food commodities, the Food Processing Industry in India is on an assured track of growth and profitability. It is expected to attract phenomenal investment in capital, human, technological and financial areas. The total food production of India is estimated to double in the next ten years. A reason why the Food Processing Industry sector in India has been accorded high priority by the Government of India, with a number of fiscal relief and incentives, to encourage commercialization and value addition. As per a study conducted by McKinsey and Confederation of Indian Industry (CII), the turnover of the total food market is approximately Rs.250,000 Crores, out of which value-added food products comprise Rs.80,000 Crores .

Basmati Rice

Like any other commodity business, Basmati Rice is a category which is little complex and widely unorganized. With an estimated consumption of around 1.5 millions tonnes of Basmati Rice in India, this is one category which has grown by almost 8 times in the last 5 years. And this is expected to grow further in India with an estimated consumption of almost 60% of the total Basmati Rice production in times to come.

Though majorly unorganized, but year on year this category is experiencing good number of conversions from unbranded to branded packaged Basmati Rice in terms of consumptions in India. In the current state, almost 24% of the consumption in India is through branded products. More and more people every year have been opting for not buying the loose packs available in the market. Among the branded packaged ones, to a consumer, a good quality Basmati Rice is available at around Rs.120-150 for a kilo. Eating rice is common habit in most of the Indian households and it is usually a part of one of the 3 meals cooked everyday. Geographically, the consumption of Basmati is higher in the Northern & Western part of the country while culturally, its consumption is quite high in the Punjabi & Gujarati families. With the view of serving the best to their customers & employees, Basmati's consumption is also higher in well recognized hotels & large institutions. The consumption of branded packaged Basmati Rice is also being driven by the modern retail that allows every consumer to select what they want.

Ambient - Ready Meals

With an estimated value of around Rs.1400 millions, Ready Meals, is a category which is growing at an average value of around 15% every year. Largely this category is still at a growing

stage, but the factors that has so far contributed to sales of Ready Meals have been Growing consumer base of working people who have less time to spend on cooking, Eating out of home becoming a common phenomena every week & weekend, Growth of Modern trade, the Convenience of making exotic Vegetarian & Non-vegetarian dishes in just a few minutes, etc. As this category grows, Innovative value additions to products with Health & Nutrition is expected to become an important aspect of it.

Frozen Food - Ready Meals

Though Frozen Food as a category constitutes many products, major of it being the Frozen unprocessed non-vegetarian food, but within this segment Frozen Ready Meals is expected to contribute approximately Rs.226 millions this year and it is expected to grow at a rate of 14% every year. The factors that contribute to the growth of this category is very similar to that of Ambient Ready Meals like Growing consumer base of working people who have less time to spend on cooking, Eating out of home becoming a common phenomena every week & weekend, Growth of Modern trade, the Convenience of making exotic Vegetarian & Non-vegetarian dishes in just a few minutes, etc.

Risks & Concerns

Macro-economic factors like recession, subdued demand and political uncertainty may affect the business of the Company and the industry at large as well. 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 unorganized 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.

TRANSFER OF BUSINESS ON SLUMP SALE

As a major strategic step, the Company is transferring its business relating to (i) manufacturing, processing, finishing, marketing, trading, distributing, importing, exporting and/or supply of food products, including ready to eat products, cook-in sauces, cooking pastes, spices, seasonings and frozen food; and (ii) the marketing, trading, selling and distributing of rice products in the territory of India along with its Food Factory situated at Bahalgarh, Haryana (collectively the "Business") together with all the assets and liabilities, employees, contracts, licenses, agreements etc, as a going concern on a slump sale to M/s Kohinoor Speciality Foods India Private Limited a proposed Joint Collaboration with M/s McCormick Ingredients Southeast Asia Private Limited, Singapore and thereafter the proposed shareholding by Kohinoor in the Joint Venture will be 15%.

Mr. Gurnam Arora & Mr. Satish Rao

Upon the consummation of the transaction, the Company shall, exclusively manufacture/process and/or package the Rice Products, for M/s Kohinoor Speciality Foods India Private Limited, for sell within the territory of India and further the Company will continue to focus its export business.

Further, M/s Kohinoor Speciality Foods India Private Limited shall, exclusively manufacture/process and/or package the food products, for the Company for export by the Company.

The necessary consent of the Shareholders, in terms of Section 293(1)(a) of the Companies Act, 1956 has been obtained by way of voting through postal ballot process in terms of Section 192A of the Companies Act, 1956 read with the rules made thereunder.