



McLEOD RUSSEL
Believe in tea

McLeod Russel India Limited

Annual Report
2018 - 19

IN FOND MEMORY OF MR. B.M. KHAITAN



Late Mr. B.M. Khaitan

14th August 1927 – 1st June 2019

Mr. Brij Mohan Khaitan was a visionary in its truest sense who left an indelible imprint of his dynamism and futuristic thinking on every business he touched and nurtured, spanning tea, batteries and engineering. He was a formidable industrial force to reckon with, in India as well as internationally.

From his humble beginnings as a supplier of tea chests and fertiliser to Williamson Magor to becoming the company's partner and eventual owner, the 'evergreen tea man of India' scripted one success story after another.

The Indian Chamber of Commerce (ICC) accorded him the Lifetime Achievement Award in 2013. Brij Babu – as he was fondly called and remembered – was a thorough gentleman and 'one of the most humanitarian industrialists' of independent India who also touched and transformed lives in different ways, making business and social welfare walk in tandem.

'We will continue to emulate our Chairman Emeritus' high standards and be guided by his philosophy and spirit of entrepreneurship.'



Corporate Information

BOARD OF DIRECTORS

Mr. Aditya Khaitan
Chairman & Managing Director

Mr. Amritanshu Khaitan

Independent Directors

Mrs. Arundhuti Dhar
(w.e.f. 30.05.2019)

Mr. Suman Bhowmik
(w.e.f. 19.07.2019)

Mr. Raj Vardhan
(w.e.f. 19.07.2019)

Mr. Ranabir Sen
(up to 19.07.2019)

Dr. Raghavachari Srinivasan
(up to 19.07.2019)

Mr. Utsav Parekh
(up to 30.05.2019)

Mrs. Ramni Nirula
(up to 30.05.2019)

Mr. Ashok Bhandari
(up to 29.04.2019)

Mr. Jyoti Ghosh
(up to 10.05.2019)

Wholetime Directors

Mr. Rajeev Takru
Mr. Azam Monem

Wholetime Director & CFO

Mr. Kamal Kishore Baheti
(up to 19.07.2019)

Chief Financial Officer

Mr. Pradip Bhar
(w.e.f. 19.07.2019)

COMPANY SECRETARY

Mr. Debanjan Sarkar

BOARD COMMITTEES

Audit Committee

Mrs. Arundhuti Dhar
Mr. Suman Bhowmik
Mr. Aditya Khaitan

Nomination & Remuneration Committee

Mrs. Arundhuti Dhar
Mr. Suman Bhowmik
Mr. Amritanshu Khaitan

Stakeholders' Relationship Committee

Mrs. Arundhuti Dhar
Mr. Suman Bhowmik
Mr. Azam Monem

Corporate Social Responsibility Committee

Mr. Rajeev Takru
Mr. Azam Monem
Mrs. Arundhuti Dhar

Auditors

Lodha & Co.
14, Government Place East
Kolkata 700069

Solicitors

Khaitan & Co. LLP

REGISTERED OFFICE

Four Mangoe Lane
Surendra Mohan Ghosh Sarani
Kolkata – 700001
Corporate Identity Number
CIN: L51109WB1998PLC087076
Phone No (033) 2210-1221/2243-5391/
2248-9434/35
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Email: administrator@mcleodrussel.com
Website: www.mcleodrussel.com

BANKERS

Allahabad Bank
Axis Bank Limited
HDFC Bank Limited
ICICI Bank Limited
State Bank of India
UCO Bank
United Bank of India
Yes Bank Limited
RBL Bank Limited

REGISTRAR

Maheshwari Datamatics Pvt.Ltd.
23, R.N. Mukherjee Road
5th Floor, Kolkata 700001
Tel: (033) 2248-2248/2243-5029
(033) 2231-6839
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Report of the Directors

For the year ended 31st March 2019

Your Directors have pleasure in presenting the Twenty-first Annual Report with the Audited Financial Statements of your Company, for the financial year ended 31st March 2019.

REVIEW OF PERFORMANCE

The financial results of the Company for the year ended 31st March 2019 are summarized below:

Rs in lakhs

	2018-19	2017-18
Revenue from Operations	130992	159634
Other Income	31539	32285
Total Revenue	162531	191919
Profit before Finance Costs, Depreciation, Exceptional Items and Taxation	21546	33684
Less : Finance Costs	32665	17093
Less : Depreciation and Amortization Expenses	6922	8268
Profit/(Loss) before Exceptional Items and Tax	(18041)	8323
Add : Exceptional Items	18041	-
Profit before Tax	-	8323
Tax Expense	442	1597
Profit/(Loss) for the year	(442)	6726

FINANCIAL PERFORMANCE

The year that we have left behind was not a very favourable year to the Company. During the year the Company had to sell the assets of several tea estates to improve its cash flow which was necessary to meet various costs which had gone up considerably. With the reduced number of tea estates, the operational turnover of the Company was lower at Rs. 130992 lakhs against Rs. 159634 lakhs achieved in the earlier year. The Company made a profit of Rs. 18041 lakhs from sale of assets. The Company also earned a sum of Rs. 8082 lakhs as dividend from its overseas subsidiary during the year. However, on account of steep rise in costs of various inputs with no proportionate increase in sale price of tea and substantial increase in finance cost amounting to Rs. 32665 lakhs as against Rs. 17093 lakhs in the earlier year, the Company registered a post-tax loss of Rs. 442 lakhs in the year under review as against a profit of Rs. 6726 lakhs in the earlier year. The Company incurred higher finance cost on account of higher borrowings from banks and other sources needed for its own operations, proposed expansion of its business activities as also to support some of the group companies.

TRANSFER TO GENERAL RESERVE

The Board has decided not to transfer any amount to the General Reserve for the year ended 31st March 2019.

DIVIDEND

In view of loss incurred by the Company during the year under review, the Board regrets its inability to recommend any dividend for the year ended 31st March 2019.

REVIEW OF OPERATIONS

During the Financial year under review, saleable production of your Company was 718 Lakh Kgs tea, as compared to 888 Lakh Kgs in the previous year. Inconsistent weather and poor distribution of rainfall through the year contributed towards a poorer cropping pattern. Pests and disease were better controlled, in spite of the restrictions on use of many key chemicals imposed through the Plant Protection Code. Reduction in production was mainly due to sale of assets of certain tea estates.

Improving plucking standards remains a priority and quality of leaf harvested has improved, resulting in a better quality of teas produced. The Uprooting and Replanting Policy of your Company continued to remain in focus and has further improved the percentage of tea under fifty years which is now over 75% of the area. The estates are now following "Integrated Pest Management" practices, which has proved to be very effective resulting in improved pest control and reduced cost. All tea Estates established good Clonal Tea nurseries with requisite, approved Clonal Blend. The Shade Nurseries are also of a good standard which is a key factor in developing a healthy plantation. The Afforestation program continues to be enhanced along with creation of new water-bodies, to improve "micro-climate", in select areas which has become essential to counter the effects of climate change.

It has always been Your Company's endeavor to produce Quality teas, which has continued to command a premium both in the domestic and international market. Production of premium Orthodox Teas was increased with an aim to fetch better prices

and factory infrastructure and machinery was enhanced to meet the requirements. As part of a continuous up-gradation and modernization programme of factories, additional Color Sorters were provided in some factories to improve the process of Orthodox Tea manufacture. In addition, the factories were provided with additional 1 No. CTC Bank, 1 No. Rotorvane, 1 No. Coal Stove and 1 No. Orthodox Dryer. To improve field operations and overcome the acute shortage of workers, Plucking Shears and Pruning Machines were made available. Water Supply to the residents of the estates was enhanced. The increased requirement of Housing and Sanitation infrastructure for our workers and their families are being met under a planned programme and will continue to remain one of the key commitments.

The Company has 34 ISO 22000 certified Factories. Your Company also has 3 estates certified as “Fairtrade” and 32 estates certified under “Rainforest Alliance.” Our endeavor to have all our factories certified under the new Indian “Trustea” certification is progressing satisfactorily with several factories already certified. We are also in the process of assisting our Bought Leaf Suppliers to be compliant under this certification. Your Company also participates in the Ethical Tea Partnership. We have, over the last 2 years, engaged with “UN Women India, the United Nations Entity for Gender Equality and the Empowerment Of Women” to build awareness among all levels of our employees on “Violence Against Women and Girls.” This programme will continue over the next year. “Community Development Forums” that were set up on some of our estates, are functioning well. These were initiated in partnership with Taylor’s of Harrogate and Ethical Tea Partnership to bring about better awareness and improve the livelihood of our workers and their families.

The Company saw a total export quantum of 144 lakh Kgs in 2018-19 with an overall turnover of over Rs. 32620 lakhs. Favourable feedback was received from the buyers both in terms of quality and deliveries.

SALE OF ASSETS OF TEA ESTATES

The Board of Directors at its meeting held on 30th May 2018 had decided to dispose off certain Tea Estates or assets thereof to achieve rationalization with the objective to optimize the operational performance by way of bringing balance amongst the Company’s own production, production using bought leaf and the teas produced by the overseas subsidiaries of the Company.

In line with the decision, the Company also obtained the approval of the shareholders under Section 180(1)(a) of the Companies Act, 2013, by way of a Special Resolution passed at the 20th Annual General Meeting of the Company held on 9th August 2018 authorizing the Board for selling, leasing, or otherwise disposing off certain Tea Estates of the Company or the assets thereof having value not exceeding 35% of the value of the Undertaking of the Company. In line with the aforesaid decision, the Company during the year sold assets of 14 Tea Estates in Assam and 2 in Dooars for an aggregate consideration of Rs. 61491 lakhs within the Financial Year ended 31st March 2019. Subsequent to this the Company sold the assets of 3 more Tea Estates in April 2019 for a total consideration of Rs. 15045 lakhs. The Company has also entered into a Memorandum of Understanding for sale of assets of yet

another Tea Estate in Assam for a consideration of Rs. 2815 Lakhs. The amounts received from the buyers of the aforesaid assets have been used for repayment of certain high cost debts, in buying back the shares of the Company from the open market, supporting the operations of the Company and other miscellaneous purposes.

Buy Back of Shares

During the year under review, the Company had decided to Buy Back its own shares from the open market through the Stock Exchanges for an amount not exceeding Rs. 100 Crores. The Buy Back process had opened on 19th June 2018 and ended on 18th December 2018. During this period the Company bought back 50,00,000 Equity Shares of Rs. 5/- each from the open market for a total consideration of Rs. 69,01,28,178/-. After completion of the Buy Back and extinguishment of the shares so bought back, the paid up share capital of the Company stands reduced at Rs. 52,22,78,675/- divided into 10,44,55,735 Equity shares of Rs. 5/- each.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

In terms of requirements of Regulation 34(2)(e) of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 (‘Listing Regulations’), a Management Discussion and Analysis Report is attached as Annexure - I forming part of this Report.

REPORT ON CORPORATE GOVERNANCE

In terms of requirements of Regulation 34(3) of the Listing Regulations, a Report on Corporate Governance together with the Auditors’ Certificate regarding Compliance of Conditions of Corporate Governance are attached as Annexure II and Annexure III respectively, forming part of this Report.

SUBSIDIARY COMPANIES AND CONSOLIDATED FINANCIAL STATEMENTS

The Company has one wholly owned subsidiary namely, Borelli Tea Holdings Limited, U.K. (Borelli) and four step down Subsidiaries. Borelli is inter alia engaged in the business of investing funds in various companies engaged in tea production, blending and marketing activities. As at the end of the year on 31st March 2019 Borelli had the following Subsidiaries in different countries:-

- (i) Phu Ben Tea Company Limited, Vietnam – controlling stake of Borelli being 100%
- (ii) McLeod Russel Uganda Limited – controlling stake of Borelli being 100%
- (iii) McLeod Russel Middle East DMCC, UAE – controlling stake of Borelli being 100%
- (iv) McLeod Russel Africa Limited, Kenya – controlling Stake of Borelli being 100%

During the year Borelli sold its entire equity stake in Gisovu Tea Company Limited and 50% of its stake in Pfunda Tea Company Limited both in Rwanda for a total consideration of USD 208,57,117 by virtue of which the above companies ceased to subsidiaries of Borelli and step-down subsidiaries of the Company. The remaining stake in Pfunda was sold in April 2019 for a consideration of USD 78,73,963.

The performances of the Subsidiaries are summarised below for your information.

As required under Section 129(3) of the Companies Act, 2013 and Regulation 33 and 34(2)(b) of the Listing Regulations, Consolidated Profit & Loss Statement of the Company and its seven subsidiaries (including Gisovu and Pfunda) and the Consolidated Balance Sheet of the Company and its five subsidiaries prepared in accordance with the applicable Accounting Standards issued by The Institute of Chartered Accountants of India are appended in the Annual Report. Investments made in D1 Williamson Magor Bio Fuel Limited, an Associate Company, have been fully provided for in the Accounts of the earlier years and as such the Financial Statements of the said Company have not been considered for consolidation.

A statement containing the salient features of the financial statements of the Company's seven Subsidiaries (including Gisovu and Pfunda) and the Associate Company pursuant to the first proviso to sub-section (3) of Section 129 of the Companies Act, 2013 prepared in Form AOC-1 is attached to the financial statements of the Company for your information.

In terms of Regulation 34(2)(a) of the Listing Regulations, Statements on impact of Audit Qualifications as stipulated in Regulation 33(3)(d) of the Listing Regulations are appended in the Annual Report.

The Company has formulated a Policy for determining "Material Subsidiary" and the same is disclosed on the website of the Company and can be accessed at: <http://www.mcleodrusssel.com/investors/policies.aspx>

BORELLI TEA HOLDINGS LIMITED

Borelli Tea Holdings Limited ('Borelli') has invested in its subsidiaries in Vietnam, Uganda, Dubai and Kenya. During the year under review, Borelli earned a profit after tax equivalent to Indian Rs. 9167 lakhs which included a profit of Rs. 10900 Lakhs on sale of its investments in Gisovu and 50% of its holding in Pfunda. The remaining equity stake of Borelli in Pfunda was sold in April 2019 for a consideration of USD 78,76,694. During the year Borelli paid dividend equivalent to Indian Rs. 8082 lakhs. The Board of Directors of Borelli has recommended payment of final dividend of 2 GBP per share on its equity capital entirely held by your Company.

In March 2019 Borelli had decided and initiated the process of buying back 60,000 of its own shares held by your company at a price of GBP 155 per share. After such buy back is completed, the share capital of Borelli will stand reduced at GBP 3,02,000 divided into 3,02,000 shares of GBP 1 each entirely held by your company.

PHU BEN TEA COMPANY LIMITED (PBT)

PBT is a fully owned subsidiary of Borelli Tea Holdings Limited. It prepares its accounts calendar year wise. During the year 2018, the company incurred loss (both pre-tax and post-tax) of USD 2289421 as against loss (both pre-tax and post-tax) of USD 2140925 in year 2017. The loss for year 2018 includes mark-to-market (non-cash) forex-loss of USD 345342 on loans from holding company. If we exclude this non-cash loss, the actual loss during year 2018 is USD 1944079, which is 9% lower than last year. During the year 2018, PBT manufactured 8.76 million kg of tea (2017 -7.39 million kg).

The increase in production was in accordance with business-plan for better absorption of fixed overheads in factories, in order to contain overall loss. During the year 2018, PBT sold 7.41 million kg tea (2017 -7.43 million kg). Average selling price per kg during 2018 was USD 1.49 (2017 – 1.44). Closing Stock of tea as at 31.12.2018 was 6.13 Million kg (31.12.2017 – 4.80 million kg).

In order to improve PBT's profitability in year 2019, many measures have been taken / are being taken. These are mainly: i) Customer-base have already been widened, thereby reducing over-dependence on major buyers. New buyers and new markets have been found ii) Cost reductions have been achieved in fixed overheads, (iii) Purchase-price of raw material (green leaf) is being reduced without affecting quality of green-leaf, (iv) Transport cost (from factories to sea-port) and warehousing-cost (at sea-port) of finished goods is being reduced by improvements in logistics-management, (v) Forex-management is being improved so that conversion of USD (tea-sale-proceeds) to VND (for payment of costs of production) is at best-possible rates.

All efforts are being made to ensure that Phu Ben does not incur cash-loss, and makes some cash-profit in year 2019.

McLEOD RUSSEL UGANDA LIMITED (MRUL)

MRUL is a wholly owned subsidiary of Borelli and its primary business is cultivation and manufacture of tea. During the year 2018, MRUL's performance has been somewhat average due to reduction in sale price by USD 0.39 per kg caused by excessive crop in Kenya. In addition, the company was enjoying income tax holiday for last 10 years which expired in July 2017 resulting in tax provision of USD 1,108,534 in 2018 compared to USD 15,445 in 2017. MRUL earned a post-tax profit of £2,462,365 in the year 2018 compared to a profit of £11,686,415 in 2017. While there has been reduction in sale price, the cost of production remained controlled.

During the year 2018, MRUL manufactured 17.72 million kgs (2017 – 16.67 million kgs), an increase of approximately 6%. The factories were undergoing capacity constraint which is since completed and now poised to produce 20 million kgs in future.

The sale price during the year 2018 has declined to USD\$ 1.59 per kg as compared to USD\$ 1.98 in previous year registering reduction of USD 0.39 per kg. Total cost of sales during the year 2017 was USD\$ 1.38 as compared to USD\$ 1.35 in 2017. The company declared dividend of USD 2,146,498 in 2018 as compared to USD 5,517,241 in 2017.

GISOVU TEA COMPANY LIMITED (GTCL)

The production of crop in the year 2018 has been at 2.28 million kgs as against 2.74 million kgs in 2017. The sale price of tea declined to USD 3.34 per kg in 2018 as compared to USD 3.96 per kg in the previous year. The cost of sales for the year 2018 was at USD 2.40 per kg as compared to USD 2.41 per kg in the previous year.

The above factors have resulted somewhat subdued profit after tax at USD 2,142,817 in 2018 as compared to USD 3,692,150 in 2017. The company had declared dividend of GBP 1,979,045 in the year 2018 as compared to USD 1,491,452 in the previous year.

Borelli Tea Holdings has sold its investment in Gisovu Tea Company in March 2019 for a consideration of USD 129,83,154 to Rwanda

Tea Investments Ltd resulting in a profit on sale of investment at Rs. 9925 lakhs.

MCLEOD RUSSEL MIDDLE EAST - DMCC (MRME)

There has been a marginal decline in profitability with post tax profit of USD 170,690 (2017 – USD 199,801) due to less volume. The total revenue of the company has been USD 3.1 million (2017 – USD 3.7 million)

MCLEOD RUSSEL AFRICA LIMITED (MRAL)

There has been marginal increase in the volume of trade with the turnover for 2018 at USD 5.99 Million against that in previous year at USD 5.80 Million. There has been reduction in loss during the year which works out to USD 60,003 compared to USD 101,141 in previous year.

PFUNDA TEA COMPANY LIMITED

There has been increase in production of tea in 2018 at 2.62 million kg as compared to 2.47 million kg in previous year. However, low sale price in 2018 at USD 2.52 per kg as compared to USD 2.96 has resulted in less profit after tax at USD 1,770,016 as compared to USD 2,182,311 in 2017. There has been reduction in cost of sales currently at USD 1.87 per kg (2017 USD 2.08). The company declared dividend of USD 1,396,973 in 2018 (2017 – USD 953,516)

Borelli Tea Holdings sold 45% (out of 90%) of its holding in Pfunda Tea Company in March 2019 to Rwanda Tea Investments Limited for a consideration of USD 78,73,963.

CORPORATE SOCIAL RESPONSIBILITY

The philosophy of your Company towards fair governance going hand-in hand with social responsibilities is deeply embedded in its day to day working. The Company has, over the years, successfully formulated a methodology aimed towards improving the life of the people and the environment, which surround the units of the Company and thereby enriching the society.

In terms of Section 135(5) of the Companies Act, 2013, certain class of companies are required to spend at least 2% of Average Net Profits made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. Although your Company did not have Average Net Profit during the above period computed in terms of Section 198 of the Act, still like earlier years, it continued with its welfare activities for development in the field of education, culture and other welfare measures to improve the general standard of living in and around the Tea Estates of the Company and other areas where it operates. A report on CSR activities voluntarily undertaken by the Company during the year is attached as Annexure XI.

The Company was associated inter alia with the following Social Welfare activities during the year under review :

- Associated with Williamson Magor Education Trust in awarding the Assam Valley Literary Award.
- Involved in preservation of ecosystem and natural habitats.
- Supporting heritage conservation.

- Supporting elderly ladies at Old Age Home and villagers with distribution of food, clothes and blankets and providing educational support to slum children.

The Company has a CSR Committee and adopted a CSR Policy which can be accessed at <http://www.mcleodrusssel.com/investors/policies.aspx>. The Corporate Social Responsibility Committee of the Board as on 31st March, 2019 consisted of 3 Executive Directors, namely, Mr. R. Takru, Mr. A. Monem, Mr. K. K. Baheti and Mr. R. Sen, an Independent Director. Mr. R. Takru is the Chairman of the CSR Committee.

BUSINESS RESPONSIBILITY REPORT

In compliance with Regulation 34(2)(f) of the Listing Regulations, the Business Responsibility Report of the Company for the year ended 31st March, 2019 is attached as Annexure IV and forms a part of the Directors' Report.

DIVIDEND DISTRIBUTION POLICY

In accordance with the Regulation 43A of the Listing Regulations, the Company has formulated a Dividend Distribution Policy and the same is annexed herewith as Annexure V. The Policy is hosted on the website of the Company and can be viewed at <http://www.mcleodrusssel.com/investor/policies.aspx>.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board acknowledges the responsibility for ensuring compliance with the provisions of Section 134(3)(c) read with Section 134(5) of the Companies Act, 2013 for the year ended 31st March 2019 and state that:

- In the preparation of the annual accounts, the applicable accounting standards had been followed with no material departure.
- the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period;
- the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the Directors had prepared the annual accounts on a going concern basis;
- the Directors, had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively.
- the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

DIRECTORS & KEY MANAGERIAL PERSONNEL

With profound grief, the Board wishes to inform the shareholders about the sad demise of Mr. B.M. Khaitan who breathed his last on 1st June 2019. He was a renowned industrialist having interest in tea, batteries and engineering. Mr. Khaitan had great contributions to the tea industry with which he was associated for over six decades. On account of his old age, Mr. Khaitan had stepped down from the Board in March 2019.

In recognition of his able leadership and the significant contribution to the Company and the Tea Industry as a whole, the Board at its meeting held on 27th March 2019, had designated him as the 'Chairman Emeritus' as a mark of respect. The Board at the same meeting appointed Mr. Aditya Khaitan as the Chairman of the Board of Directors.

The Board of Directors of the Company as on 31st March 2019 comprised of 11 Directors of whom seven were Independent Directors including one woman Director.

During the year Mr. Bharat Bajoria and Mr. Padam Kumar Khaitan resigned from the Board and Mr. Ashok Bhandari and Mr. Jyoti Ghosh were appointed as Independent Directors, both of whom however, stepped down from the Board after closure of the year. Mr. Utsav Parekh and Mrs. Ramni Nirula, Independent Directors also resigned from the Board after the closure of the year and Mrs. Arundhuti Dhar has been appointed as an Independent Director with effect from 30th May, 2019.

The Board wishes to place on record its sincere appreciation for the valuable services rendered by Mr. B.M. Khaitan, Mr. B. Bajoria, Mr. Utsav Parekh, Mrs. Ramni Nirula, Mr. Padam Kumar Khaitan, Mr. Ashok Bhandari and Mr. Jyoti Ghosh during their association with the Company as Directors.

In accordance with the provisions of the Articles of Association of the Company read with Section 152 of the Company Act, 2013, Mr. R. Takru will retire by rotation at the forthcoming Annual General Meeting. Mr. Takru however is not offering himself for re-appointment.

A certificate of Non-Disqualification of Directors furnished by M/s. A.K. Labh & Co., Company Secretaries as required under Regulation 34(3) read with Schedule V Para C sub-clause 10(i) of SEBI (LODR) Regulations, 2015 is attached as Annexure XII.

During the year, the Company had 5 Key Managerial Personnel, being Mr. Aditya Khaitan, Chairman and Managing Director, Mr. Rajeev Takru, Wholetime Director, Mr. A. Monem, Wholetime Director, Mr. K K Baheti, Wholetime Director & CFO and Mr. A. Guha Sarkar, Company Secretary.

Mr. A. Guha Sarkar retired as the Company Secretary of the Company on 31st March 2019 and Mr. Debanjan Sarkar has been appointed as the Company Secretary of the Company, w.e.f. 1st April 2019.

The Independent Directors have submitted their disclosures to the Board, that they meet the criteria as stipulated in Section 149(6) of the Companies Act, 2013.

The Board met five times during the year on 30th May 2018,

9th August 2018, 12th November 2018, 14th February 2019 and 27th March 2019. The intervening gap between any two Board Meetings was within the period prescribed by the Companies Act, 2013.

The Company has adopted a Familiarization Programme for Independent Directors and the same is disclosed on the website of the Company and can be accessed at <http://www.mcleodrussel.com/investors/policies.aspx>.

SEPARATE MEETING OF INDEPENDENT DIRECTORS

In terms of requirement of Schedule IV to the Companies Act, 2013, the Independent Directors had a separate meeting on 27th March 2019 without the attendance of non-independent Directors and members of management. Majority of the Independent Directors were present at the said meeting. The activities prescribed in paragraph VII of Schedule IV to the Act were carried out at the said meeting.

BOARD EVALUATION

The Securities Exchange Board of India (SEBI) vide its circular No. SEBI/HO/CFD/CMD/CIR/P/2017/004 dated 5th January 2017 had issued a guidance note on Board Evaluation which inter alia contains indicative criterion for evaluation of the Board of Directors, its Committees and the individual members of the Board.

The Board of Directors at its Meeting held on 30th March, 2017 had considered and adopted the indicative criterion for evaluation of the Board of Directors, the Committees of the Board and the individual directors as enumerated in the said Circular and amended the Board evaluation framework accordingly.

Pursuant to the new Evaluation Framework adopted by the Board, the Board evaluated the performance of the Board, its Committees and the Individual Directors for the financial year 2018-19.

AUDIT COMMITTEE

The Audit Committee of the Board as on 31st March 2019 consisted of Dr. R. Srinivasan, Mr. R. Sen and Mr. Aditya Khaitan. Dr. R. Srinivasan, a Non-Executive Independent Director, was the Chairman of the Audit Committee.

The Company has established a Vigil Mechanism/Whistle Blower Policy and oversees through the Audit Committee, the genuine concerns, if any, expressed by the employees and the Directors. The Company has also made provisions for adequate safeguards against victimization of employees, Directors or any other person who express their concerns. The Company has also provided direct access to the Chairman of the Audit Committee on reporting issues concerning the interests of the employees and the Company. The Vigil Mechanism / Whistle Blower Policy of the Company has been uploaded on the website of the Company and can be accessed at <http://www.mcleodrussel.com/investors/policies.aspx>.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board as on 31st March 2019 comprised, Dr. R. Srinivasan and Mr. R. Sen, Non-Executive Independent Directors and Mr. Amritanshu Khaitan as its Members.

The Company's Policy relating to appointment of Directors, payment of managerial remuneration, Directors' qualifications, positive attributes, independence of Directors and other related matters as provided under Section 178(3) of the Companies Act, 2013 and Regulation 19 of the Listing Regulations is attached to this report as Annexure VI.

LOANS, GUARANTEES OR INVESTMENTS MADE UNDER SECTION 186 OF THE COMPANIES ACT, 2013

The particulars of loans, guarantee or investment made under Section 186 of the Companies Act, 2013 are furnished in the Note 54 to the Financial Statements for the year ended 31st March 2019.

PARTICULARS OF CONTRACTS OR ARRANGEMENTS MADE WITH RELATED PARTIES

The Related Party Transactions entered into by the Company during the year under review were on arm's length basis in the ordinary course of business for mutual benefits. There was no contract, arrangement or transaction with Related Parties which could be considered as material and which may have a potential conflict with the interest of the Company. The Company has formulated a Related Party Transaction Policy and the same is disclosed on the website of the Company and can be accessed at <http://www.mcleodrussel.com/investors/policies.aspx>.

DEPOSITS

The Company has neither accepted nor renewed any deposits during the year under review.

GOING CONCERN STATUS

No significant and material orders have been passed by the Regulators or Courts or Tribunals impacting the going concern status of the Company and its operation in the future.

MATERIAL CHANGES AFTER END OF THE FINANCIAL YEAR

Except as disclosed below and elsewhere in this Annual Report, no material changes and commitments which could affect the financial position of the Company have occurred between the end of the last financial year and the date of this Annual Report.

There had been delays in servicing of certain borrowings. On account of this and losses incurred in operations, ICRA has downgraded the credit-rating of the company. As a corrective measure, the Company is negotiating with its bankers for refinancing of loans.

DETAILS IN RESPECT OF ADEQUACY OF INTERNAL FINANCIAL CONTROLS WITH REFERENCE TO THE FINANCIAL STATEMENTS

Financial statements (i.e. Balance Sheet, Profit & Loss Statement and Cash-Flow Statement, together with notes) are prepared through the process which has automated as well as manual controls to ensure accuracy of recording all transactions which have taken place during any accounting period, and the resultant financial position at period end. All data pertaining to payroll, purchases, agricultural activities, plucking, manufacturing, dispatch, selling and other activities are recorded through ERP systems operating in tea estates as well as head office. All data/ transactions entered in systems are checked by various functional

personnel on the basis of supporting documents & records, then the accounting entries are checked by accounts personnel and finally those are validated by managerial personnel.

At periodic intervals, the accounting data are compiled, and financial statements are prepared. While preparing the financial statements, it is ensured that all transactions pertaining to the accounting period are recorded. Fixed assets, stock of tea, all significant items of stores and monetary assets are physically verified. Balance confirmations are obtained for all significant items of trade receivable and advances.

After preparation of the financial statements, all items appearing in the statements are analysed in order to ensure overall reasonableness.

The Company has adopted policies and procedures for ensuring the orderly and efficient conduct of its business, including adherence to the Company's policies, safeguarding of its assets, prevention and detection of fraud and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial disclosures.

CEO AND CFO CERTIFICATION

In terms of Part B of Schedule II of Listing Regulations, the CEO and the CFO of the Company certify to the Board regarding review of the financial statements, compliance with the accounting standards, maintenance of internal control systems for financial reporting and accounting policies, etc.

HEALTH, SAFETY AND WORKING ENVIRONMENT

The Company considers its people as one of the most valuable resources and recognises that safe and healthy working environment motivate employees to be more productive and innovative. The Company takes adequate measures to keep its field and factories safe in all respects. Regular training is imparted to the employees for promoting awareness on safety and skill enhancement. The Company runs a hospital in each of its Tea Estates where the employees of the concerned Estate get regular medical attention. In addition, the Company has set up a few central hospitals which are equipped with modern medical instruments. These hospitals are accessible to the employees of the surrounding areas. The Company also provides facilities for sporting and cultural activities for the employees in the Tea Estates.

ANNUAL RETURN

The extract of Annual Return pursuant to the provisions of Section 92 of the Companies Act, 2013 read with Rule 12 of the Companies (Management and Administration) Rules, 2014 is attached to this Report as Annexure VII.

AUDITORS AND AUDIT REPORT

In terms of Section 139 of the Companies Act, 2013, Deloitte Haskins & Sells LLP, Chartered Accountants (Firm Registration No.117366W/W-100018) ("Deloitte") was appointed as the Statutory Auditors of the Company to hold office for a period of five consecutive years from the conclusion of the 19th Annual General Meeting held on 9th August 2017 till the conclusion of

the 24th Annual General Meeting. Deloitte has conducted audit for the Financial Year ended 31st March 2019 and furnished their report.

In their Report dated 29th June 2019, Deloitte has given an adverse opinion in relation to the Standalone and Consolidated Financial Statements of the Company for the Financial Year ended 31st March 2019. The Board's response in relation to the said opinion is as under:-

- (a) The Company had in the course of its business extended certain capital advances to other companies inter alia to acquire certain land parcels for its business expansion. These capital advances were extended on the basis of certain MoUs/agreements between the Company and the other promoter group companies in furtherance to the Company's business objectives. Certain outstanding capital advances given to the Promoter Group Companies were subsequently converted to ICDs as on 31st March 2019, due to the fact that the purposes for which the advances were extended could not be achieved within a reasonable period of time. The Promoter Group level restructuring is under way to monetise assets to meet up the liabilities of those companies including those ICDs. The Management believes that the outstanding dues shall be recovered/adjusted and hence no further provisions are required at this stage. It is also clarified that these capital advances were provided through normal banking channels and not mere book entries.
- (b) The Company has from time to time provided inter-corporate deposits (ICDs) to certain companies within the promoter group over the last few financial years and the Company has earned substantial interest income from such ICDs. The ICDs extended by the Company are repayable on demand and the borrowing entities repay such ICDs. The audit committee of the Company reviews the details of ICDs provided and refunded on a quarterly basis. The ICDs provided by the Company during the financial years 2016-17 and 2017-18 were reflected in the audited accounts of the Company, which were subsequently approved by the shareholders. These ICDs have from time to time been refunded to the Company. It may also be noted that the Company charges interests on the ICDs at a rate of interest higher than its average rates of borrowing. Over the last 3 financial years, the Company has earned significant amount of interest income from such ICDs. The board of directors of the Company therefore believe that the outstanding dues shall be recovered and no provision is required at this stage for the ICDs and the interest accrued thereon. The management of the Company is already in discussions with the lenders of the Company to carry out a refinancing proposal. Accordingly, the board of directors of the Company believe that the Company would be able to continue as a going concern and discharge its liabilities in the normal course of business. Thus, there is no requirement of any adjustments to the carrying value of the assets and liabilities and their classification in the Balance Sheet. Furthermore, a promoter group level restructuring is under way to monetize assets to meet up the various liabilities of the companies (part of the promoter group) including the outstanding ICDs.

- (c) As clarified above, certain capital advances given to the promoter group entities were subsequently converted to ICDs as on 31 March 2019 on account of the non-fulfilment of the objectives for which such capital advances were provided. The ICDs extended till the end of the financial year was within the limits prescribed under Section 186 of the Companies Act 2013. The limits under Section 186 were exceeded only due to the conversion of the aforementioned capital advances to ICDs at the end of the financial year and the Company is taking necessary steps to obtain requisite approvals and regularize the same.

Further, the Company would also like to clarify that none of the promoter group companies to whom capital advances were provided are companies whose board of directors are accustomed to act in accordance with the directions of any director of the Company. Existence of common directors does not automatically result in any legal presumption, affirmative or negative, regarding the 'accustomed to act' test. The common directors between the Company and the entities to whom capital advances have been provided, act in separate and distinct capacities while acting as directors of the concerned companies. Thus, the provisions of Section 185 of the Companies Act 2013 were not applicable to the aforesaid capital advances.

- (d) The Sundry Income has been earned on the Advances and Loans extended to one of the Promoter Group Companies and the same has been received in the normal course of business.
- (e) In terms of legal opinion obtained by the Company, the said Promoter Group Companies are not related parties as per the provisions of the Companies Act, 2013 and the applicable Accounting Standard.
- (f) The Company is taking necessary steps to recover the money given to a body corporate as Advance. The advance was extended to the body corporate for business purposes of the Company.

Having regard to the above, the Company believes that the Company would be able to continue as a going concern and discharge its liabilities in the normal course of business and as such the financial statements of the Company for the year ended 31st March 2019 have been prepared on a going concern basis. Further, the Board is of the opinion that the Company has in place adequate systems of internal control commensurate with its size and the nature of its operations.

The company management believes that the financial statements of the Company have been presented in accordance with the applicable requirements of Regulation 33 of the SEBI (LODR) Regulations, and gives a true and fair view in conformity with the applicable Indian Accounting Standards and other accounting principles generally accepted in India. Apart from the delay in submitting the audited financial statements beyond the timelines stipulated in Regulation 33 of the SEBI (LODR) Regulations, which has been disclosed to the stock exchanges, the Company believes that the financial statements are in accordance with applicable