# management discussion and analysis

## The purpose of this discussion is to provide an understanding of financial statements and a composite summary of performance of our business ventures and the segments in which they operate.

**Management Discussions and Analysis (MDA) is structured as follows:**

- Economy Overview
- Business and Perfomance Overview
- Competitive Landscape
- Risks and Threats
- Internal Controls and their adequacy
- Review of Financial Performance

Some statements in this discussion may be forward looking. Future performance may however differ from those stated in the management discussion and analysis on account of various factors such as changes in Government regulations, tax regimes, impact of competition, competing products and their pricing, product demand and supply constraints. Certain financial numbers mentioned in the MDA for various companies have been mentioned based on our economic interest (Our share in the equity of the investee company multiplied by its financial parameter), therefore the same may vary from the figures considered in consolidated accounts which are included based on principles of accounting.

### Economy overview

While the world economy is in a recessionary phase, the Indian economy faced a difficult year with substantial growth moderation. Despite challenging economic conditions, the Indian economy continued to grow around 6.90% in the last financial year 2011-12. It still remains vulnerable to both internal and external factors like, high inflation, depreciating rupee, high oil prices and uncertain global scenario. As there are mixed signals from the world economy, India's return to recent high growth rates shall depend on further fiscal reforms and steps to improve the Country's investment climate.

The economy also faced problem of elevated price pressure and some form of policy imbroglio, which impacted general business sentiments. These may not have immediate solutions but it will be critical how these issues are addressed by the Government in order to instill confidence within the various economic participants.

We expect the Indian economy to be in a stronger position as compared to difficulties faced over last year. The demographic led consumption story makes a very strong case for India with almost 58% of GDP consumed internally. Strong internal demand kept India going and shielded it from external uncertainties. A large domestic market led by the emergence of a soaring middle class population, investor-friendly policies, availability of skills and demographic prospects are some of the strong positives that are the bedrock of the Indian growth story.

### Business and performance overview

Being part of the consumption growth in India, your Company continues its focus to strengthen its position in developing, acquiring and partnering of businesses in the Fashion Apparel and Accessories, FMCG and Food Processing, Rural Distribution and Edutainment, which constitute a significant portion of the household expenditure. The large size of the addressable domestic market and its steady expansion when viewed with the relatively low current level of penetration coupled with higher organised retail penetration suggests significant headroom for future growth of branded fashion and processed food. Your Company has positioned itself well for this anticipated growth in business with an appropriate structure, strategy and capabilities. Considering the opportunity in the integrated food play, your Company has successfully generated a strong pipeline for the future investment in Food, FMCG and distribution segment. Your Company, through Capital Foods Limited, is also setting up an Integrated Food Park, which will set a benchmark in the food processing industry in India. Further investments shall help in capturing the complete value chain of food processing industry from farm to fork.

Your Company believes in applying a disciplined investment approach and building strong partnerships with highly-motivated management teams and entrepreneurs. The investment objective is to catalyze the growth of emerging or potentially high-growth business opportunities through active participation as investors and mentors.

During the year under review, your Company invested ₹ 9,900 lakhs in new businesses and further consolidating its position in fashion business, ₹ 8,734 lakhs in FMCG & Food Processing business, ₹ 2,100 lakhs in Rural Distribution and ₹ 6,696 lakhs in Edutainment business.

Your Company has total equity capital of ₹ 1,576 crore, of which over ₹ 1000 crore has been invested in growing and nurturing these businesses as well as in increasing its holding in the promising companies.

indigo nation
mother earth
scullers
lee cooper
anita dongre
holii
biba

# fashion

## Our investment in the fashion space covers the entire value chain in the category, coupled with presence in almost every sub-category in the sector.

### Apparels – dressing the world over

The Indian apparel industry is expected to grow at a CAGR of 8.70 per cent till FY16. The growth would primarily be driven by the surge in demand for branded readymade apparels by domestic consumers in rural and urban areas due to rising income levels, young population and increasing preference for branded apparels.

The domestic apparel industry comprises of five segments – menswear, womens wear, Kids wear, unisex and uniforms further bifurcated in formal and casuals. Our portfolio consist of companies with wide spectrum of 25 national and internationally recognized brands like Lee Cooper, Manchester United, John Miller, Turtle, Indigo Nation, Scullers, Daniel Hechter, Lombard, Celio, AND, Clarks, BIBA, etc. They are present in mens, womens and kids segment in formal, casual and ethnic wears including accessories at various price points.

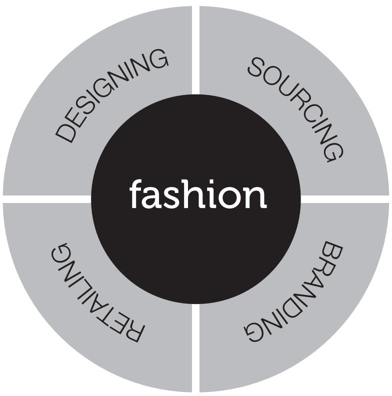
Apparel industry's profitability is mainly influenced by the raw material and input prices. Domestic players enjoy better margins as against the exporters. The raw material prices for apparel players have been on rise in the recent past due to the soaring cotton and crude oil prices.

Indian apparel Industry has been unable to pass on the rise in cost to the consumers due to the stiff competition and limited pricing power. Therefore, the margins of the apparel manufacturers have been affected and are expected to remain subdued over the medium term. Buoyancy in domestic demand is the key to the future profitability.

All these brands have a strong retail network through their own Exclusive Brand Outlets (EBOs) as well as Multi Brand Outlets (MBOs) and presence in modern retail. Few of the brands are also exploring the franchisee model and trying to expand its reach through general distribution mode. They are targeting E-commerce as another big channel of distribution for the brands to expand their reach and brand presence in Indian and International markets. The consolidated revenue in the category is expected to grow by 30 -40% and with impetus on cost reduction and change in sales mix, the EBIDTA is expected to improve from current levels. Considering the fast changing customer preferences, it is necessary for the industry to keep a track of major changes in apparel trends for consumer preferences and emergent opportunities with tight working capital management.

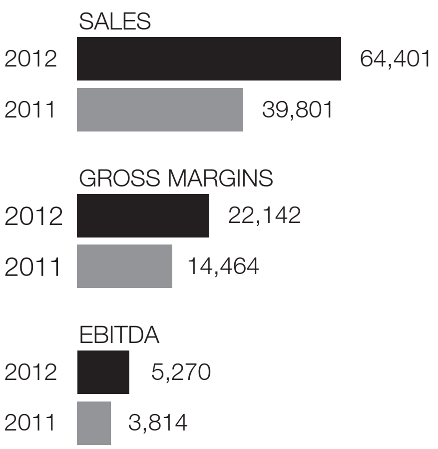
The revenues of our fashion segment have grown considerably over previous year. Based on the economic interest (Company's share in the equity of the venture multiplied by its financial parameter), the segment's aggregate turnover for the FY 2011-12

## CAPTURING THE VALUE CHAIN IN FASHION.

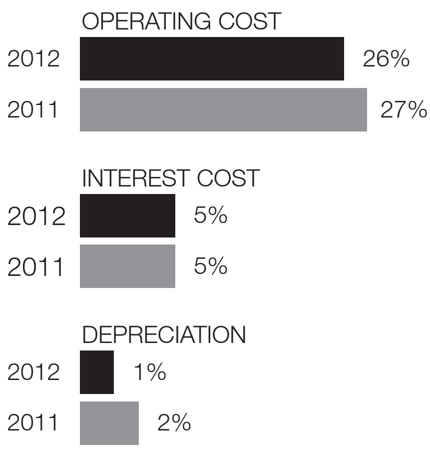



## EARNINGS SNAPSHOT ( ₹ lakhs)

Economic Interest Basis




## COSTS% OF SALES




registered a growth of 62%. Better absorption of fixed costs over increased sales base has resulted in reduction in operating cost as percentage of overall sales though EBITDA margins are lower due to increase in cost of materials and imposition of excise duty on branded apparels.

The segment has been focusing on the working capital management. Net Working Capital Cycle (Inventory + Debtors-Creditors) has improved by 28 days, during the year under review.

During the fiscal year 2011-12, your Company has invested into a Joint Venture with UK based globally renowned footwear brand “Clarks”. Your Company has made investments to the tune of ₹ 23.30 crore in Clarks Future Footwear Limited. Your Company has also raised its stake in Indus-League Clothing Limited, BIBA Apparels Private Limited and Indus Tree Crafts Private Limited by investing an aggregate of ₹ 74.71 crore. It has invested ₹ 1 crore in Holii Accessories Private Limited to support the growth of business. These brands are expanding their retail footprint and have been receiving encouraging response from the market. Your Company believes that these brands have strengthened and diversified its fashion portfolio in apparels and accessories.

### 1. Indus-league clothing limited (Indus League)

Indus League started its operations in 1999. It is one of the largest fashion companies with a wide array of branded apparels and accessories. It is uniquely positioned as a designer, manufacturer and retailer of ready-made garments in mens and womens casual and formal wear through established brands such as “Indigo Nation”, “John Miller”, “Scullers”, ““Urbana”, “Daniel Hechter”, “Urban Yoga”, “Manchester United” and “Jealous”. Indus League has market presence in India, Sri Lanka and Middle East. Indus League operates through 108 exclusive brand outlets and 191 multi-brand outlets. During the year under review, Indus League has opened 4 Manchester United EBOs in Mumbai, Kolkata and Pune, which have received an encouraging response. Indus League has tied up with the fast growing E-commerce sites and franchisee route to expand its retail reach in tier 2 and tier 3 cities.

Indus League in terms of its holding in Celio Future Fashion Limited (49.99%), Lee Cooper (India) Limited (100%), and Turtle Limited (26%) has reported consolidated turnover on economic interest basis of ₹ 572.03 crore and operating profit / EBIDTA of ₹ 45.60 crore for fiscal year ended 2012. It has registered a turnover growth of 41% over last year. EBIDTA % has been lower on account of impact of excise duty and increasing input costs.

We believe that with wide array of brands and reach, Indus League is well positioned to grow its fashion business rapidly. Indus League will continue to expand its reach by opening exclusive brand outlets, stores in multi brand outlets, E-commerce and traditional distribution network in the coming year.

## 2. Biba apparels private limited (BIBA)

BIBA has an established presence in women ethnic wear segment in India since 1988, which includes ethnic ensembles (salwar, kameez and dupatta), mix and match readymade clothing and unstitched fabric lengths all under the brand "BIBA". BIBA has also received an overwhelming response to its kidswear collection launched during the year under review. BIBA operates through 87 exclusive brand outlets and 199 multi-brand outlets.

For fiscal year ended 2012, BIBA has reported aggregate turnover of ₹ 168.84 crore and operating profit/EBITDA of ₹ 39.51 crore, which has grown by 24% and 56% respectively over previous year. The operating margin has improved on account of better product mix and realisation.

## 3. AND designs india limited (AND)

AND is a well established and one of the largest brand in Designer Apparel for Women under the Brand "AND", "Anita Dongre Inter Pret", a mix and match western wear fashion brand, "Anita Dongre Timeless", a custom made occasion wear, "GRASSROOT", an organic clothing line and "Globaldesi", an ethnic fusion wear. During the year under review, AND launched an exclusive designer wear bridal collection and menswear under the brands Anita Dongre Inter Pret and AD man and AND, thereby further consolidating its portfolio and its position in Western, Casual, ethnic and Formal women wear and mens wear. AND operates through 73 exclusive brand outlets and 241 multi-brand outlets.

For fiscal year ended 2012, AND reported aggregate turnover of ₹118.76 crore and operating profit / EBITDA of ₹ 22.56 crore registering a growth of 44% and 58 % respectively over previous year.

AND already has a strong portfolio of well recognised brands in women wear. AND has further added new categories to its women wear range and with the launch of menswear, it has further strengthened its portfolio.

## 4. Indus tree crafts private limited (Indus Tree)

Mother Earth is a "for Profit" social entrepreneurship driven by triple bottom line-financial, social and environmental. Indus Tree is engaged in the design, creation, domestic retailing and distribution and export of a wide range of environmentally and socially sustainable products, which include apparels, personal accessories, furniture, handicrafts and home linen and are marketed under the brand "Mother Earth". Most of the products sold by Indus Tree are hand crafted by over 4,000 artisans, craftsmen and self-help groups across India. It operates through 6 exclusive outlets and 33 multi brand outlets.

A social fund "Grassroot Business Fund" based in United States, has extended financial assistance to Indus Tree during the year under review.

For fiscal year ended 2012, Indus Tree had aggregate sales of ₹ 14.81 crore and operating/EBITDA loss of ₹ 3.67 crore. Indus Tree has ambitious plans to touch more lives and scale up its operations profitably by expanding its reach in domestic and international market.

## 5. Holii accessories private limited (Holii)

Holii was incorporated in 2009 as a joint venture with Hidesign India Private Limited. It is in the business of designing and distributing fashion accessories, such as luxury handbags, wallets and other leather products for women, under the brand name "Holii". It operates through 11 exclusive outlets and 68 multi brand outlets.

For fiscal year ended 2012, Holii reported turnover of ₹ 5.70 crore and operating/EBITDA loss of ₹ 1.81 crore.

## 6. Clarks future footwear limited (CFFL)

CFFL is a joint venture between Future Ventures India Limited and C&J Clark International Limited (Clarks). which is licensed to use the brand "Clarks" which carries a strong brand image across the globe, backed by footwear expertise of Clarks which is supported by world class research of over 185 years.

Clarks was established in 1825 and is based in Somerset, United Kingdom. It is an international footwear retailer. It is the fourth largest manufacturer and retailer of shoes in the world. Clarks products are being sold in over a 100 countries, with more than a 1,000 stores selling above 50 million pairs a year also giving employment to over 13,000 people. Clarks multi-channel retailing facility provides an online access to complete range of children's, men's and women's footwear and handbag to customers. Clarks has registered a total turnover of $1.4 billion in 2010. Clarks' major markets include UK (the top market for the brand) US, Japan, Malaysia, Singapore, Europe and China.

In its first 9 months of operations, CFFL reported a turnover of ₹ 23.53 crore and operating/EBITDA loss of ₹ 7.73 crore. CFFL has opened 15 exclusive brands outlets and 152 multi brand outlets. The brand has been well accepted by the Indian customers and is set to become one of the most preferred brand in footwear.

CFFL's operations are in built up phase and with increase in the number of stores through exclusive and multibrand outlets, the turnover of CFFL is expected to increase multifold.

tasty treat

chings

smit jones

car mate

fres & pur

sa ch

# food

## The total food production in India is expected to double in the next ten years and there is ample opportunity for huge investments in food and food processing technologies, skills and equipments.

The Indian food and beverages market has witnessed strong growth over the past few years. Liberalisation of the economy and growing income of middle class population have had a positive impact on consumer spending and consumption in both rural and urban areas. Indian consumers now spend a significant proportion of their income on food and other essential commodities. Numerous other factors like demographic and macro-economic conditions have also given boost to expenditure on food and beverages in the Country.

The food processing industry in India stands at US$ 135 billion and is projected to grow with a compound annual growth rate (CAGR) of 20 per cent over the next five years so as to reach US$ 200 billion by 2015.

The food processing industry in India is witnessing quick growth. Overall the branded players in the processed foods category are expected to grow much faster than the total market. In addition to the demand side, there are changes happening on the supply side as well with the growth in organised retail, increasing foreign direct investment (FDI) in food processing and introduction of new products. Although there shall be competition from the International brands and products, but we believe that with unique preference and taste of Indian consumers, there shall be huge opportunity for Indian based companies to cater to the changing preferences of Indian customer. With massive scope for value addition, growing trend in the consumption pattern of processed food products in India and many fiscal incentives being planned by the Government, this sector is poised for a hyper growth in the future. Government incentives in the field of mega food parks, cold chain and exports benefits are also playing an important role in encouraging food processing.

Future Ventures supports new and fast growing brands in the home and personal care and processed and packaged food segment that are retailed through Food Bazaar, KB's Fairprice, rural distribution network, Aadhaar and an independent distribution network of Capital Foods. Supply side shall further be strengthened by creating Integrated food park thus capturing the entire value chain from sourcing from farmers in vicinity to processing and packaging of food products and distribution to retailers.

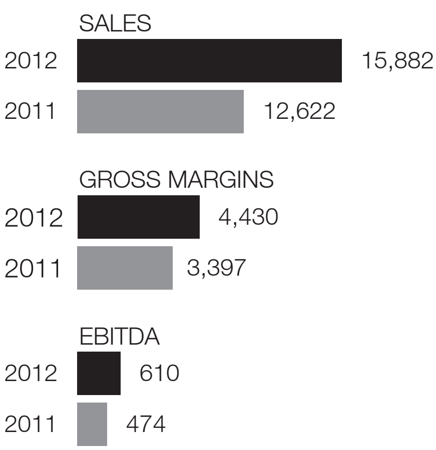
Our Integrated Food Park at Tumkur, Karnataka is progressing well after some delay in land acquisition. The land has been allotted and the contracts for the building and infrastructure are being finalised. The Food Park near Bangalore is expected to be fully operational in the next 15-18 months.

During the year, your Company has raised its stake in Capital Foods Exportts Private Limited from 40.81% to 43.76% by additionally investing ₹ 36 crore.

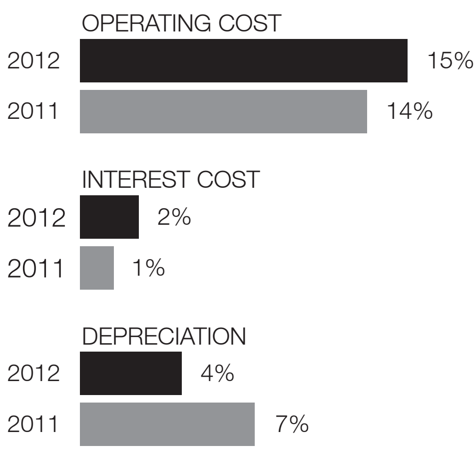
## CAPTURING THE VALUE CHAIN IN FOOD


## EARNINGS SNAPSHOT ( ₹ lakhs)

Economic Interest Basis




## COSTS% OF SALES




The revenues of our Food and FMCG segment have grown considerably over previous year. Based on the economic interest the segment's aggregate turnover for the FY 2011-12 registered a growth of 26%.

The continued focus on the working capital management has resulted in further improvement in Net Working Capital cycle (Inventory+Debtors-Creditors) by 13 days, for the year under review.

To further strengthen our position in the processed food business, your Company is exploring possibilities to invest in such Food Parks in the West, East and North of India. Your Company is also exploring investment opportunities in different food and distribution companies to strengthen its product and brand portfolio.

### 1. Capital foods exportts private limited (Capital Foods)

Capital Foods is a 13 year old company which has developed packaged ready to cook and ready to eat products such as instant noodles, sauces, chutneys, hakka noodles, vinegar under its brands, "Chings Secret" and "Smith& Jones". During the year under review, Capital Foods has launched innovative and easy to use packaging for its pouring sauces and garlic paste. It currently has 900+ C&F agents and distributors across 250 cities for general distribution reaching more than 1,40,000 retailers. It also sells directly to modern retail. It also exports products to various countries.

For fiscal year ended 2012, Capital Foods reported a consolidated turnover of ₹ 123.22 crore and operating profit/EBITDA of ₹ 14.56 crore, showing growth of 12% and 28% respectively over previous year.

Capital Foods has matured as a significant domestic player after starting primarily as an export oriented company. It has created platform for itself from where it can grow disproportionately. Capital Foods is in process of launching a new brand to capture huge potential in the unbranded grocery market in India.

### 2. Integrated food park private limited (IFPPL) – mega food park project

IFPPL is a SPV incorporated to set up food processing infrastructure in Tumkur, Karnataka under the Mega Food Park Scheme of Ministry of Food Processing Industries, Government of India. The project has been awarded to IFPPL in April 2011 by MoFPI. The planned outlay of the project is estimated at ₹ 144 crore.

The project will aim at developing food processing infrastructure, with the objective of integrating “farm to plate” supply chain. The site for the project is located about 100 kms from Bangalore, in Vasanthanarsapura Industrial Area in Kora Taluk, Tumkur District, Karnataka.

Over last 15 months, the project has been advancing in its planning and development. Possession of the land of 110 acres was completed in March 2012.

Development of Hub and Spoke infrastructure and modern Food Processing facility has been envisaged, wherein collection centers will support the Core Processing and Food Manufacturing and will facilitate operations of Fresh produce and Staples.

Much desired facilities of efficient handling, storage and distribution of Food products in a safe, hygienic and compliant environment are being created in the Food Park

### 3. Future consumer enterprises limited (FCEL)

FCEL owns exclusive right to sell and distribute various food and FMCG products under the various brands (Tasty Treat, Fresh & Pure, Clean Mate, Care Mate, Premium Harvest, SACH, Disney, Ektaa). FCEL has launched various products and innovative packaging during the year which has been very well appreciated by the customers.

For fiscal year ended 2012, FCEL reported a turnover of ₹ 103.65 crore and operating profit/EBITDA loss of ₹ 0.24 crore. The revenue registered a growth of 30% over the last year.

We believe that the products launched by FCEL have huge potential having demonstrated consistent growth in a competitive in-store environment. FCEL has received an overwhelming response in the rural market where its products are distributed by Aadhaar Retailing Limited. Seeing the response, FCEL is exploring other distribution channels to distribute its products in the general trade. FCEL is in the process of launching a personal care brand which will expand its portfolio of products offering.

### 4. Future consumer products limited (FCPL)

Your Company has 90% stake in FCPL, which owns the brand “Sach” in association with lengendary cricketer Sachin Tendulkar. The brand stands for purity and honesty. Various products have been launched in categories such as dental care & hygiene, personal care, juices and apparels under the brand “Sach”. These products have been well received in the market. The entire marketing of products is through Future Consumer Enterprises Limited and Future Value Retail Limited which are exclusive licensee(s) for this purpose.

# aadhaar

## rural distribution

## reta iling

## econ omic

## new growth

# rural distribution

## Over the last few years, much emphasis has been given on the empowerment of rural India, which has translated into impressive economic growth.

With rural markets representing the heartland of the true culture and demographic identity of India, the market assumes great significance as majority of India lives in the rural and semi rural areas. The rural market represents the largest potential market in the Country. With over 70 per cent of India's population residing in rural areas, capturing these markets is becoming one of the most lucrative targets for all sectors.

Over the last few years, much emphasis has been given on the empowerment of rural India, which has translated into impressive economic growth. Key drivers behind this growth include Government initiatives and schemes, infrastructure development, industry projects across the country and the emphasis on local-employability.

With rapid penetration of communication and broadcasting services in the rural areas, the demand for lifestyle products is rapidly increasing, providing huge opportunity to the players in organised sector to expand their reach into the rural India. Also, with the Government of India looking to improve the physical infrastructure of the Country and planning huge investments, the penetration of organised sector products will increase rapidly over coming years, even in the farthest corners of the Country.

It is interesting to note that a mere one per cent increase in India's rural income translates to a large buying power of ₹ 10,000 crore (US$ 1.79 billion). Nearly two-thirds of all middle-income households in the Country are in rural India. According to consulting firm BCG, 50 per cent of the market is made up of bottom of the pyramid consumers while another 24 per cent, at present comes from small towns and rural India.

A report by the National Council of Applied Economic Research (NCAER) shows that rural segment comprises more than 50 per cent of consumers constituting as a prime market for consumer goods.

Considering the penetration potential and the current challenges for distribution of products in rural India, Aadhaar Retailing Limited has set up its first distribution centre at Kalol, Gujarat and is establishing Franchisee model in vicinity areas to expand its retail footprint.

During the year the Company has invested ₹ 21 crore in the business to support the growth and expansion of its operations.

### Aadhaar retailing limited (ARL)

Your Company entered the business after acquiring a 70% stake from the existing rural distribution network of Godrej Agrovet, present in over 35 rural locations in the Country. ARL is now further building its spread through wholesale markets and franchise network under Aadhaar brand for rural stores. The first wholesale market has come up at Kalol in Gujarat and is expected to provide a strong distribution platform for ARL as well as other FMCG brands in the rural market. The business is aimed at capturing a large share of the growing consumption demand in rural India. During the year under review ARL got a very encouraging response from the franchisee campaign. ARL has successfully appointed 16 franchisees in the first phase.

## EARNINGS SNAPSHOT ( ₹ lakhs)

Economic Interest Basis

| | SALES | GROSS MARGINS | EBITDA |
|---|---|---|---|
| 2012 | 6,503 | 204 | (1002) |
| 2011 | 4,592 | 160 | (995) |

## COSTS% OF SALES

| | OPERATING COST | INTEREST COST | DEPRECIATION |
|---|---|---|---|
| 2012 | 19% | 4% | 7% |
| 2011 | 25% | 8% | 10% |

**Key highlights of the wholesale business model of ARL:**

ARL will establish franchised outlets under a hub-and-spoke model with Aadhaar's wholesale centres serving the franchisees within a 40-50 km radius. The outlets are to be located in villages with a population of 5,000-10,000 and will be about 300-400 square feet in size.

ARL will initially open wholesale outlets in regions where it already has a presence through rural retailing in states such as - Punjab, Haryana, Gujarat and Maharashtra.

To increase vendor base, ARL plans to draw synergies from other group avenues such as the Food Park venture and Future Consumer Enterprises Limited.

ARL has registered a growth in sales by 42% on account of increase in retail and institutional sales.

ARL believes that there is enormous potential in rural distribution and is bullish on the growth of ARL. The initial feedback of the franchisees is very positive and encouraging.

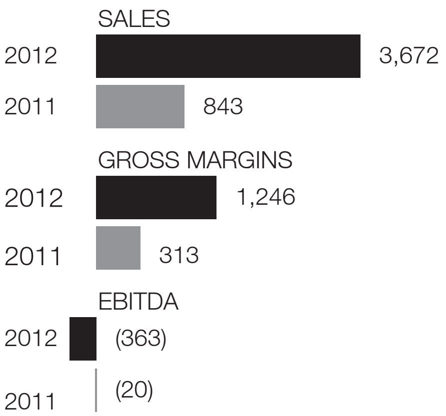
# tinkle
## amar chitra katha
# karadi
## 400 titles

# edutainment

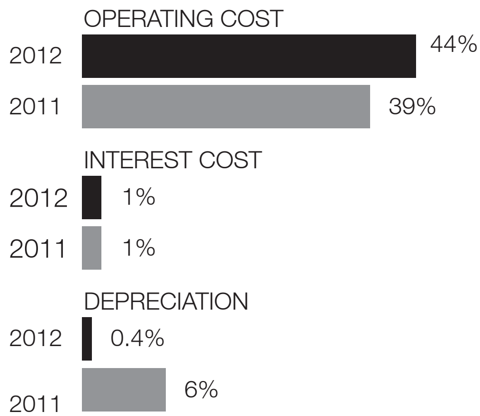
**The growth trajectory is backed by strong consumption in Tier 2 and 3 cities, continued growth of regional media, and fast increasing new media bussiness.**

### EARNINGS SNAPSHOT ( ₹ lakhs)

Economic Interest Basis




### COSTS% OF SALES




In 2011, the Indian Media & Entertainment (M&E) Industry registered a growth of 12 percent over 2010, to reach INR 728 billon, says the FICCI-KPMG report. The growth trajectory is backed by strong consumption in Tier 2 and 3 cities, continued growth of regional media, and fast increasing new media business. Overall, the industry is expected to register a CAGR of 15 percent to touch INR 1,457 billion by 2016.

The year 2011-12 has been a challenging year not just for the Indian M&E industry, or even the Indian economy, but for the larger world economy. While India is still expected to grow at a healthy pace, growth is projected to be lower than earlier expectations

### Amar chitra katha private limited (ACK)

Your Company has made a strategic investment to revive and contemporize one of India's oldest iconic brands – Amar Chitra Katha. Your Company has during the year under review, raised its stake from 13.65% to 65.84% in ACK (on fully diluted basis).

ACK owns flagship brands like 'Amar Chitra Katha', 'Tinkle' and 'Brainwave', and also has a strategic investment in a children's audio book brand 'Karadi Tales'. It has basket of 400+ titles and over 100 proprietary characters. It is an established leader in the under- 15 age group with diverse product offerings in various formats that are compatible to new media platforms. ACK also operates India Book House (IBH), the largest distributor of books and magazines in India.

ACK now has right to publish and distribute international magazine 'National Geographic' and 'NG Traveller'. Both the magazine's India avatar is expected to hit the stands in July'12.

ACK is realigning itself with new vision and has appointed a new CEO to build a robust team of experienced and professional people. It is in the process of strengthening its three pillars i.e Content, Publishing and Distribution. ACK intends to transform its IPR and icons to new age, digital platform by building properties in online, gaming , movies and product merchandising space.

## Competitive landscape

The market currently is very fragmented with presence of both organised and unorganised players with the latter representing a significant market share. The presence of many Indian and International brands in the market makes it all the more competitive and price sensitive. Your Company has built a diversified portfolio of brands under various categories of menswear, womenwear and kidswear over a period of time, giving ample options to the customers to choose from. Our businesses are well prepared to make further investments in various categories by leveraging the Future Group's knowledge bank and deep understanding with respect to fashion trend and customer insights.

FMCG market is dominated by few large MNCs with vast distribution network and wide array of products and brands. With our consumer insights and understanding of the Indian markets, we have already been able to develop and launch various products which have been well received in the market. Considering the low proportion of unbranded products in India we feel that there is huge scope for new and innovative products.

Packaged Processed Food products are manufactured and marketed by various regional players and some large international players which have recently entered the market. The competition will lead to expansion of the market for packaged and branded food products. The fact that the processed food in India is still at nascent stage with only 2-3% of food being processed; there is a huge scope for increase in consumption in this space. Entry of new brands, products and players will certainly lead to competition, which will actually help in expanding the market for such products.

## Risks and threats

Since our activities will be focused on consumption led sectors in India, our results of operations and financial condition will continue to be influenced by the macro-economic, market and other conditions and development in India. These factors include levels of and growth rates in GDP and per capita GDP, which affect the customer's disposable income. Rising inflation, higher interest costs, currency exchange rates pose a threat to input costs and margins. A slow down of the Indian economy may adversely affect our businesses, including its ability to implement its strategy.

These would be mitigated by a thorough continuous monitoring of performance and factors impacting it. Monitoring of costs and working capital management would be the focus to create efficiencies and margin expansion.

For each of the Business Venture, the Company would undertake timely measures to mitigate execution, operational and market risks through active participation and regular monitoring through a dedicated team of Professional Managers. We will ensure that standard operating procedures are defined with each Business Venture and affix responsibilities for execution. These operating processes and plans would be periodically reviewed for compliance checks and initiating timely action for improvisation and revisions that may be considered necessary.

## Internal controls and their adequacy

The Audit Committee comprising of independent directors regularly reviews financial and other policies, monitoring procedures in the Business Ventures, key audit findings and recommends measures to improvise the risk assurance processes.

The Management Assurance team carries out quarterly reviews to assess the internal control environment of its Business Ventures and their adequacy. We review their internal audit reports and monitor implementation of key recommendations. The broader systems of internal controls and external audits have been defined and deployed in the various businesses to protect our Business Ventures and shareholders from potential risks.

## Review of financial performance

The consolidated financial statements have been prepared in accordance with Indian GAAP (Generally Accepted Accounting Principles) and as prescribed for accounting of subsidiaries, Joint Ventures and Associates, as applicable.

Investment in subsidiaries are accounted based on line–by-line consolidation after eliminating inter-company balances and minority interests as per AS-21. "Consolidated Financial Statements" Investment in Joint ventures are accounted based on proportionate consolidation method as per AS - 27. "Financial Reporting of Interest in Joint Ventures" Investments in associates are accounted based on equity method as per AS- 23 "Accounting for Investment in Associates in Consolidated Financial Statements".

## Income

The Company has recorded consolidated total income of ₹ 86,041 lakhs in the fiscal 2012 as against ₹ 54,926 lakhs in fiscal 2011. Our total income primarily include revenue from sale of consumer products by our subsidiaries and proportionate share of revenue in our joint ventures, income from investing activities, interest on deposits, other operating income, other income and our proportionate share of income in our joint ventures. Income from investing activity primarily consists of interest income and dividend income.

## Expenditure

Our total expenditure include costs of goods sold by our subsidiaries, employee costs, operating and other expenses, interest and financing charges and depreciation and our proportionate share of costs in our joint venture.

## Cost of goods sold

Our cost of goods sold primarily include costs in relation to purchases of raw materials by our subsidiaries and other costs which include freight and forwarding charges and labour charges and our proportionate share of costs in our joint venture. Our cost of goods sold accounted for 68% and 65% of our total income for fiscal 2012 and fiscal 2011 respectively.

## Employee cost

Our employee cost include salaries and bonus to our employees, contributions to provident fund and other funds as well as staff welfare expenses and also includes our proportionate share of cost in our joint ventures. Our staff costs accounted for 8% of total income for both fiscal 2012 and fiscal 2011.

## Administrative and Other expenses

Our administrative and other expenses primarily include expenses towards payment of rent, power, water and fuel, advertisement, publicity and selling expenses, travelling expenses, legal and professional charges and our proportionate share of such costs in our joint ventures. Our administrative and other expenses accounted for 21% and 24% of our total income for fiscal 2012 and fiscal 2011 respectively.

## Interest and financing charges

Our interest and financing primarily consists of interest on working capital loans, fixed loans and term loans and our proportionate share of such expenses in our joint ventures. Our interest and financing charges accounted for 3% and 4% of our total income for fiscal 2012 and fiscal 2011 respectively.

## Depreciation & Amortization

Depreciation expenses primarily consists of depreciation on our fixed assets. Depreciation also includes amortization of intangible assets such as trademarks, brands and entry and license fees. Our Depreciation accounted for 3% and 5% of our total income for fiscal 2012 and fiscal 2011 respectively.

## Provision for taxation

We provide for current income tax as well as deferred tax. Provision for taxation accounted for 1% and 0.5% of our total income for fiscal 2012 and fiscal 2011 respectively.

## Investments

Investments, which are long term in nature are stated at cost and provision for diminution is made, if the decline in value is other than temporary in nature. Net increase in investments during the year under review is ₹ 27,430 lakhs.

## Goodwill

The Accounting treatment for the excess of investment value of the Company in its subsidiaries and joint ventures over the Company's portion of the equity share capital in the subsidiaries and joint ventures is treated as Goodwill on consolidation. During fiscal 2012, it is ₹ 39,429 lakhs with an increase of ₹ 7,835 lakhs over fiscal 2011.