

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### INDUSTRY STRUCTURE & DEVELOPMENTS

#### A. ENGINEERING & PROJECTS DIVISION:

##### Enabling High Quality Steelmaking through the Route of Induction Furnace

Engineering and Project (the “E&P”) Division of the Electrotherm (India) Limited has been catering to the needs of steelmaking, foundry and heat treatment industry for over three decades. Over the period of time, Company has become synonymous with steel making through induction furnace route by making significant contributions to the industry around the globe. The E&P Division has consistently grown over last 5 years and achieved its highest ever sales in financial year 2018-19 recording 22.2% growth over previous year. Pleasantly, India also became the world’s 2<sup>nd</sup> largest crude steel producer attaining 106.5 million tons of production in year 2018.

Company’s strategy and commitment to deliver best in the class product and best in the industry services to its customer by consistently improving its current products and innovating customer-centric new products and process technologies have provided it cutting edge over the competition. A steady growth of steel sector, foundry and heat treatment industry too supplemented consistent and robust growth of the Company.

Successful launch of DIFOC based DTi series of induction furnaces, the world’s most energy efficient ones by the Company a couple of years back, improved profitability of its induction furnace based steel making customers. Company’s improvisation of ladle refining process through ERF<sup>®</sup> coupled with ELdFOS<sup>®</sup> technology for dephosphorization and desulphurization has ensured production of construction grade steel whose quality is at par with that through any other route of steel making, consistently and cost effectively, independent of raw materials. Success of high speed casters enabling direct rolling of hot billets has benefitted customers by substantially reducing the process cost, besides reducing the carbon footprint. Further, customized air pollution control system, specifically engineered for induction furnace application, has helped plants meet pollution norms which are becoming gradually stringent. In turn, the Company has harnessed rich dividends in terms of improved market share for its entire range of products.

Industry focused continuous developments and innovations by the Company have provided the Indian steelmakers through integrated route of induction furnace – ladle furnace an opportunity to participate in infrastructure growth story of the country, going beyond catering to the needs of small housing projects, or at the most some high rise buildings. The steel making industry through induction furnace route has really banked upon your Company, and the Company has consistently delivered by steadily upgrading itself from being a single product company to multi-product manufacturer to turnkey project supplier to total solutions provider.

Besides steel industry, the Company also developed more efficient technologies and products for foundry and heat treatment industry this year and launched DTi-Smart model of induction furnaces for foundry and IGBT based advance power supplies in the frequency range of 0.5 KHz to 30 KHz meeting critical requirements of most of the heat treatment and through heating applications. It has given an edge to the Company consolidating its position in both the segments. The Company has recorded healthy year-on-year growth in both these verticals and is sure to garner significant contribution to its revenue from them going forward.

Going beyond Indian territory, the Company has extended its presence to 58 countries while also consolidating its position in several countries like Iran, Saudi Arabia, Nigeria, Algeria and many other countries where induction furnace route has become preferred route for steel making. This year your Company brought about one third of its revenue from exports besides winning some healthy overseas contracts which will be executed in the following years.

Considering Government of India’s intent to spend about ₹100 lakhs crore on infrastructure development, with intense focus on development of roads & highways, railways, airports, seaports, smart cities, and 1.95 crore houses to be built by the government in next 2 years, and many more steel-intensive projects initiated during last five years, it seems quite pragmatic that India will have an installed capacity of 300 MTPA for steel making and actual production in excess of about 255 MTPA by financial year 2030-2031 as envisaged by National Steel Policy (NSP 2017) of India. Your Company will continue to make significant contribution to the nation by providing state of the art technologies and products needed for creating additional steelmaking capacity through integrated route of induction furnace – ladle furnace in India and overseas, further consolidating its leadership position with improved market share, sales revenue and EBIDTA over next decade.

#### B. STEEL & PIPE DIVISION:

The formation of the BJP government with full majority once again is a big positive for the Indian economy. This will ensure continuation of all major policies which were being implemented in the last 5 years.

While the economy has slowed down a bit, we remain confident that things will pick up from here on. Lower crude prices and low inflation augers well for the Indian economy. The BJP manifesto is extremely aggressive on the infrastructure development in the country. The budget also reflects this aggression. Focus of the government on road building, housing and water infrastructure is only going to increase from here. All this is extremely positive for the steel sector demand. More and more new capacity is also being created in the country for steel making which will result in an all-round development of the steel sector including new capacities for pellets and sponge iron.

The Steel and Pipe Division of the Company achieved substantial growth in the financial year 2018-2019 as compared to previous year 2017-2018.

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

The Company's key product *i.e.* ET TMT, continues to enjoy leadership position in the market. The Company has not only strengthen its presence in the housing segment, but has also substantially improved its sale and presence in the infrastructure project segment. The Company received many approvals during the year which will help the company to sell more in the projects/Infrastructure segment. The cut & bend TMT segment is also seeing a good traction in the market and more & more customers have shown willingness to shift from normal TMT bars to C&B TMT. The Company sold 5,26,781 Tons of finished steel products (billets and TMT bars) during the year as compared to 3,63,277 Tons previous year, a growth of 45.01 %. The Company started its third rolling mill for production of TMT bars in the month of March 2019. This will further allow the Company to consolidate its leadership position in the market.

The Pipe Division of the Company also did well during the year. The Company has started to focus on the export market. The export sales increased to touch ₹ 44 crores during the year. The Company will look to increase its exports further during the current year. With increased focus of the government on water infrastructure in the country, the Pipe Division is expected to do well in the coming years.

The division continued on its path of operational excellence by improving employee involvement and sense of belonging. The plant teams won 7 Kaizen Awards and 2 Energy Conservation Awards at National Level during the year.

One suggestion per month from every employee for his work place improvement ensures culture of continuous improvement, employee engagement and a safe work place in the organization. Environment sustainability and employee safety is the core of our focus area. Project-Kavach, an initiative to match Global Safety Standards, exemplifies the rigor of team commitment towards safe and happy workplace.

Operational excellence lays its main emphasis to continuously improve human resource quality, identifying areas of improvement and putting processes in place to cross our own bench marks regularly. Our vision to transform managers into leaders and aligning KPI's at all levels toward business goals improved our OEE at par with the best in the industry. The team remains committed to the customers for providing cost effective quality products with the fastest delivery time.

Motivated employees - our biggest assets are more likely to go the additional mile. Taking care of our employees, rewarding their achievements, and celebrating key milestones has become strong company culture.

**C. ELECTRIC VEHICLE DIVISION:**

The Electric Vehicle Division witnessed growth in terms of revenue in the FY 2018-2019 visa vis 2017-18. Rollout of 'YO DRIFT' in the two wheeler segment along with attractive features in the first quarter of 2018-19, along with 'YO EDGE' saw strong customer demand leading to sales uptake. With government unveiling a host of incentives for electric vehicles in form of income tax rebates for buyers, lower custom duties on spare parts along with introduction of second phase of FAME India scheme from 1<sup>st</sup> April 2019; electric vehicles are becoming an attractive alternative for the consumers.

The two-wheeler and three-wheeler segments will continue to offer a huge opportunity in India given that India is the world's largest two-wheeler market as well as one of the biggest for three-wheelers, used widely for commute and cargo transportation. Vehicle segments like scooters, three wheelers, small commercial vehicles and public transportation are seeing faster EV penetration.

Our focus shall continue to remain on products in two and three-wheeler segment as well as initiating manufacturing of electric drive train in India which is in line with government's indicated direction on mobility electrification.

**FINANCIAL SITUATION:**

Some lenders of the Company had assigned their debt to Edelweiss Asset Reconstruction Company Limited (EARC), Invent Assets Securitisation & Reconstruction Pvt. Ltd. ("Invent") and Rare Asset Reconstruction Limited ("Rare ARC") (formerly known as Raytheon Asset Reconstruction Private Limited) and Company has entered into settlement with EARC, Invent and Rare ARC for payment of said debts. During the year, the Company has entered into settlement with Vijaya Bank, Rare ARC for liability of Dena Bank and International Finance Corporation (IFC). The Company has also entered into settlement with Syndicate Bank and repaid the whole settlement amount.

**SEGMENT-WISE PERFORMANCE:**

The Business segment of the Company comprises of Engineering & Project Division, Special Steel Division and Electric Vehicle Division. The Segment wise performance of the Company for all the three divisions for the year ended on 31<sup>st</sup> March, 2019 is as under:

(₹ In Crores)

Particulars	Engineering & Projects Division	Special Steel Division	Electric Vehicle Division
Revenue from operations	943.47	2,496.26	31.68
Segment Profit / (Loss) Before Financial Cost & Other Unallocable Item	84.90	106.46	(12.26)
Capital employed	(131.66)	377.60	35.57

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

#### Revenue from operations:

The revenue from operations (Gross) of the Company for the financial year ended on 31st March, 2019 was ₹ 3462.37 Crores as compared to ₹ 2772.11 Crores of previous financial year.

#### Cost of Materials consumed including purchase of traded goods:

The cost of materials consumed including purchase of traded goods for the financial year ended on 31st March, 2019 was ₹ 2500.01 Crores as compared to ₹ 1984.39 Crores of previous financial year.

#### Depreciation and amortization:

Depreciation and amortization for the financial year ended on 31st March, 2019 is ₹ 138.46 Crores as compared to ₹ 144.90 Crores of the previous financial year.

#### Finance Costs:

Finance costs for the financial year ended on 31st March, 2019 is of ₹ 38.33 Crores as compared to ₹ 4.89 Crores of previous financial year.

Loan accounts of the company have been classified as Non-Performing Assets by the Central Bank of India and Standard Chartered Bank and the Bankers have not charged interest on the said accounts and therefore provision for Interest (Other than upfront charges) has not been provided in the books of accounts and to that extent profit has been overstated and bankers loan liability has been understated. The extent of exact amount is under determination and reconciliation with the banks, however as per the details available with the company, the amount of unprovided interest, on approximate basis, on the said loans is ₹ 124.31 Crores for the financial year 2018-2019 and total amount of ₹ 876.35 Crores upto 31st March, 2019.

#### Profit Analysis:

Net Profit for the financial year period ended on 31st March, 2019 is ₹ 140.77 as compared to profit of ₹ 11.20 Crores of previous financial year.

#### Key Ratios:

The details of changes in the key financial ratios as compared to previous year are stated below:

Sr. No	Ratio	Financial Year 2018-2019	Financial Year 2017-2018	Change (%)	Reason significant changes of 25% or more as compared to previous year
1.	Debtors Turnover (Days)	37.67	51.39	(26.70)	Company has changed its credit policy.
2.	Inventory Turnover (Days)	61.55	61.06	0.80	-
3.	Interest Coverage Ratio	4.67	3.29	42.02	Profitability of the company is improved in FY 2018-2019 as compared to previous year
4.	Current Ratio	0.61	0.59	4.64	-
5.	Debt Equity Ratio	(1.26)	(1.25)	0.93	-
6.	Operating Profit Margin (%)	9.17%	5.81%	57.93	Increased in revenue by 25% is the reason for improvement in operational as well as net profit margin.
7.	Net Profit Margin (%)	4.05%	0.40%	904.76	
8.	Return on Net Worth	(12.44)	(0.93)	(1,230.49)	Negative as the Company's networth has been eroded

#### RISK AND CONCERNS:

The Company has established a well-defined process of risk management, wherein the identification, analysis and assessment of the various risks, measuring of the probable impact of such risks, formulation of risk mitigation strategy and implementation of the same takes place in a structured manner. Though the various risks associated with the business cannot be eliminated completely, all efforts are made to minimize the impact of such risks in the operations of the Company.

At present, the Company is at risk with regards to winding up petitions, recovery proceedings and attachment of properties which may threaten the existence of your Company.

The Company has raised long term funds through External Commercial Borrowings (ECB) and Foreign Currency Convertible Bonds (FCCBS). As the FCCBs are not converted into Equity Shares, the same will have to repay in foreign currency along with ECB and this will mean an exposure of the Foreign Exchange fluctuation risk.

#### INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Internal Control System is designed to prevent operational risks through a framework of internal controls and processes. The Company has in place adequate system of internal control and internal audit commensurate with its size and the nature of its operations. Our internal

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

control system ensures that all business transactions are recorded in a timely manner, the financial records are complete, resources are utilized effectively and our assets are safeguarded. Internal Audit is conducted by experienced Chartered Accountants in close coordination with company's Finance, Accounts and other departments of the Company. The findings of the Internal Audit team are discussed internally with the Executive Directors as well as in Audit Committee Meetings and their suggestion for improvement & strengthening is reviewed by the Audit Committee / Board.

### DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS:

Under Human Resource Development Strategy, announced before years, Electrotherm (India) Limited is simplifying its business model and global footprint, realigning its business divisions, reducing complexity, investing in technology and cutting costs.

The success of Human Resource Development Strategy will depend in part on our ability to retain, motivate, develop, and continue to attract employees with the skills and experience to help the challenges and make the most of opportunities. Investing in our employees remains of paramount importance.

The Human Resources Development Strategy provides transparency on the company's employee metrics and how we are translating our strategic priorities into action. It gives examples of what we achieved in 2018-2019 in organizational culture; diversity and inclusion; talent and development; talent acquisition; compensation and benefits; managing change; and collaboration with our social partners.

Our employees are the most valuable assets of our company. We are sincerely grateful to all employees and their representatives for their close and constructive cooperation in 2018-19. We were able to achieve good progress against many strategic priorities despite our challenges. Continuing that partnership will be a key to implementing the significant changes announced under Human Resource Development Strategy. We have set up a scalable recruitment & Human Resources Management process. As on 31<sup>st</sup> March, 2019, there were 2352 permanent employees employed by the company.

One of the key initiatives of the company is to provide training on environment, health and safety also provide training on soft skill up-gradation to improve their skills as may be relevant to the respective functions.

### Following are some of the activities related to human resources / industrial relations during the financial year:

- Talent Development Programs
- Policy Enhancement
- Service delivery and business processes
- Reward & Recognition program
- Operation Excellence program
- New Joiner Orientation & Induction program
- Health & Safety initiatives
- Festival celebration
- Total Employee involvement activities

### HEALTH & SAFETY

We value the human life and believe, all injuries are preventable. Our aim is zero accident. We are committed to conduct all our operations in a manner, so as to avoid harm to employees, contractors, workmen, visitors, local public and the environment. This responsibility starts with each one of us. We Provide safe machines and need based Personal Protective Equipments to employees to reduce risk at work place. We Create awareness among employees / Vendors / contractors through training and partner to demonstrate our commitment and involvement, responsibility and accountability to archive HSE performance and provide a safe and healthy work environment for all employees.

### CORPORATE SOCIAL RESPONSIBILITY

The management of the Company believes in the philosophy of beyond profit and engages in the CSR activities with an aim to Invest – To benefit generations, Educate – for self-reliance & growth, Encourage – for self-help, Care – for those who need its most and sustain natural resources. The employees of the Company also visits the nearby villages of the Plant for implementation of CSR activities.

### CAUTIONARY STATEMENT:

Statements in this Management Discussion and Analysis detailing Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" with the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the Countries within which the company conducts business and other factors such as litigation.