



Management Discussion and Analysis

Indian Economy:

Infrastructure Sector plays an important role in the growth and development of the nation. It also generates a substantial percentage of employment opportunities. It accelerates manufacturing activities and provides a vital connectivity either on land, water or in air.

After the liberalization, there was a spurt in the Infrastructure Sector which saw a steady rise for a considerable period. However, for last couple of years, it appeared that it was consolidation time and the growth remained more or less stagnant. For achieving the 5-trillion economy-ambitious plan of Honourable Prime Minister by 2025, the Infrastructure Sector has to play a vital and important role.

The COVID-19 pandemic and consequent nationwide lockdown announced by the Government of India since March 24, 2020 had a significant adverse impact on the operations of the Company as being faced by the Nation and the world. Since the Company is involved in Construction related activities which falls under the non-essential category, the Company has temporarily suspended operations in its ongoing projects at site.

Operations of the Company:

The Company's operations have been affected in the last few years by various factors including liquidity crunch, unavailability of resources on timely basis, delays in execution of projects, delays in land acquisition, operational issues etc. The Company's overseas operations are affected due to weak order booking, paucity of working capital and uncertain business environment. Unfortunately, world is facing a pandemic on a large scale. The Company's operations were significantly impacted following Government directives on lockdown in March 2020.

The Company was in the advanced stages of discussions in various arbitration matters which were expected to be decided in favor of the Company. However due to the pandemic and the nationwide lockdown all then arbitration matters were stalled which has delayed the realization of the arbitration claims. This has hit the financial position of the Company badly. It is not possible to estimate the full impact on the business of the Company at this time. Such pandemic always gives an opportunity to bounce back with new initiatives. The Government's **Make in India** initiative will have tremendous opportunity in this regard. And if this opportunity is grabbed by the industry then there is a possibility of quick turnaround which will also give push to Infrastructure Sector. Opportunities will remain open for our Company such as solar power, Pradhan Mantri Sahaj Bijlee Har Ghar Yojana, Ujjwala Yojana, to name a few. Each of these schemes/projects has a sizable budgetary provision which will give ample opportunities to Infrastructure Sector for growth. The various projections of previous years may be required to be carried forward during next financial year and perhaps it will spill over further with the spread of pandemic in our country.

The facilities of the Company with the CDR lenders are presently marked as NPA since June 2017. The Company has been making every effort in settling the outstanding CDR matter.

The Reserve Bank of India had vide its circular no. RBI/2018-19/ 203 DBR.No.BP.BC.45/ 21.04.048/2018-19 dated 7th June, 2019 issued directions for 'Prudential Framework for Resolution of Stressed Assets' which came into immediate effect i.e. 7th June, 2019. To take into consideration the above mentioned circular issued by RBI all the lenders executed ICA in July 2019.

Pursuant to the execution of the ICA the lenders appointed M/s Deloitte Touche Tohmatsu India LLP as Process Advisory (PA) in the resolution process of the Company. Subsequently on the recommendation by Deloitte the Company signed an engagement letter with Duff and Phelps (D&P) to act as valuers and legal consultants to carry out the valuation of the Company and estimation on the recoverability of arbitration claims of the Company.

The main focus of the Company is to work on valuation of assets and its realization. With the acceptance of the Resolution Plan, the new Management will have ample opportunities considering the vast experience and the qualification of the Company in the sectors of Housing, Power, Irrigation, Water Supply and Hydroelectric Power Structures.

With proactive Government, Company is hopeful that the challenges such as land acquisition, delay in obtaining environmental and other clearances, high cost of funding, banking support, slow dispute resolution mechanism etc. will be streamlined and will facilitate Company to devote its time in acquiring and executing projects.

Currently, Company's main focus is on **Resolution Plan** and **Expediting the Arbitration Proceedings**. Both things were progressing as per the original schedule. However, due to the fallout of pandemic the same is not fully operational as of now. By virtue of the passage of time will determine about the consequential effects of such a pandemic.

The Company is on the schedule of on-going projects except Kota ID Cooling Tower, considering the financial non-viability, Company is opting for the foreclosure of the contract.

REVIEW OF FINANCIAL PERFORMANCE:

During the year under review the Turnover of the Company on a Standalone basis stood at ₹ 71.71 crores, as compared to ₹ 197.40 Crores during the previous F.Y. ended 31st March, 2019. The Company posted a Net Loss after Tax of ₹ 1122.56 Crores during the period ended 31st March, 2020, as against a Net Loss after Tax of ₹ 1755.05 Crores during the previous FY ended 31st March, 2019.

On a Consolidated basis, the Turnover of Gammon Group during the period under review stood at ₹ 86.38 Crores as compared to ₹ 984.38 Crores for the previous F.Y. ended 31st March, 2019. The Group posted a Net Loss after Tax of ₹ 630.79 Crores during the F.Y. ended 31st March 2020, as against a Net Loss after Tax of ₹ 1296.44 Crores during the previous F.Y. ended 31st March, 2019. The income generated during the year is from the residual EPC. Interest and finance costs continue to be high.

During the year 2019-20 the Company concentrated on pursuing arbitration which is in various stages. During the year under review the Company's current liabilities exceed the current assets by ₹ 7070.41 Crores.

MANAGING RISK

The Construction Industry in general has risk on many accounts such as

1. Right of Way
2. Geological Condition Variance
3. Law and Order Situation of the Location
4. Lack of Fund Allocation and Subsequent Delay in Collection
5. Time Overrun due to Force majeure conditions
6. Increased working capital Cycle due to above
7. Delay in Dispute Resolutions with the Client etc.

Those risks are mitigated by

1. Selective biddings
2. Restricting business limited to in-house expertise
3. Sub-letting the project on back to back basis
4. Restricting the role as a PMC only
5. Early contractual and legal actions for all contract related matters
6. Periodic structured review of the projects on ongoing basis to identify the challenges and the risks and to find the possible solution to mitigate the losses.

HUMAN RESOURCES

Post the demerger of the two businesses, the Company's operations have reduced substantially. The Company continues to operate with skeptical employees, with the Company facing retention of employees as a major challenge.

INTERNAL CONTROLS

The Company remains committed to ensuring an internal control environment that provides assurance on the operations and safe guarding of its assets. The internal control have been designed to provide assurance with regards to recording and providing reliable financial and operational information, complying with the applicable statutes, safeguarding assets, executing transactions with proper authorization and ensuring compliance with corporate policies. Management periodically assesses the effectiveness of its internal controls with a view to obviating material weaknesses.

The Company's Audit Committee consists of Independent Directors and is headed by experienced professionals. The Committee meets periodically to review the auditors' reports and the limited review report as provided by the statutory auditors of the Company and their observations and make recommendations for adequacy, effectiveness of internal controls and required remedial actions if any to the Board of Directors.

CAUTIONARY STATEMENT

Statements made in the Management Discussions and Analysis describing the Company's objectives, projections, estimates, expectations may be 'forward looking statement' within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied.

Important factors that could make a difference to the Company's operation include economic conditions affecting demand-supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the government regulations, tax law and other statutes and other incidental factors.