

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### GENERAL REVIEW

Grindwell Norton Limited (“GNO”) is one of the subsidiaries of Compagnie de Saint-Gobain (“Saint-Gobain”), a transnational group with its headquarters in Paris and with Sales of Euro 40.8 billion in 2017. Saint-Gobain’s businesses fall into four broad sectors of activity: Construction Products, Flat Glass, High Performance Materials and Building Distribution. GNO’s businesses are part of the High Performance Materials sector of activity. In GNO, the businesses are divided into two major segments:

1. Abrasives
2. Ceramics & Plastics

### BUSINESS ENVIRONMENT

The new Index for Industrial Production witnessed low growth during first half of the financial year 2017-18. Since November 2017, there has been a strong pick-up in growth. A number of factors have contributed to this: completion of the GST transition, re-stocking of depleted channel inventories, relatively low inflation and a stable exchange rate, an increase in exports.

### ABRASIVES SEGMENT REVIEW

#### Products & Plants

Bonded Abrasives are most commonly available in the form of wheels. They are also available in other shapes such as segment, sticks etc., and are used for various applications ranging from polishing or lapping to removing high quantities of materials. Bonded Abrasives are used in precision applications such as lapping, honing, super-finishing, race grinding, thread grinding, fluting, OD grinding, ID grinding, surface grinding etc. They are also used in rough applications such as snagging, cutting-off, burr removal weld preparation etc. Bonded Abrasives are used by a very large number of users cutting across several industries like Steel, Bearings, Auto Ancillaries, Auto OEMs, Cutting Tools, Needle, Razor, Rice Polishing & General Engineering etc. The variety is very high and there are a lot of custom built, Make to Order products. GNO makes over 15,000 different products in a year.

Thin Wheels are predominantly Cutting and Grinding Wheels used for cutting, deburring and weld-removing.

Super Abrasives are made of diamond (synthetic or natural) or Cubic Boron Nitride and are used in precision applications.

Coated Abrasives products are engineered composites comprising of a backing, a bond system and abrasive grains and are designed for material removal and surface preparation. Coated Abrasives products are available in various shapes like discs, belts, rolls etc., to suit a wide gamut of surface preparation and polishing applications. Non-Woven Abrasives, which are a part of Coated, also cater to consumer market in scouring applications. In industrial applications, Non-Woven products are used for a high level of finish.

GNO offers the widest range of cutting-edge Abrasive products to the Indian market, Made in India or sourced from other plants of Saint-Gobain. Saint-Gobain has a strong backward integration when it comes to Abrasives as the Grains & Powders Division manufactures high-end Abrasive grains. Besides, Saint-Gobain has its own in-house, strong Research and Development (“R&D”) and is uniquely positioned in the Abrasives industry, as it can leverage the capability of developing grain technologies suited for Abrasives applications.

The Abrasives business has four manufacturing sites: Mora (near Mumbai), Bengaluru, Nagpur and Bated (Himachal Pradesh). All the sites are certified under ISO 9001, ISO 14001 and OHSAS 18001.

#### Industry

The Abrasives industry currently has two major players offering a full range of Abrasive products, one of which is GNO. GNO has a leadership position in several product-market segments. Apart from the two major players in the market, there are a few medium-sized players and a number of small local players. Besides, imports from China are present in many categories, particularly at the low end. Some of the players from Europe and Japan have their agents and/or distributors to service mainly the precision grinding or polishing or surface preparation segments. In the case of Coated Abrasives, a few important international players have set up conversion facilities. Also, most of the Power Tool players are now focusing on developing their accessories business which



includes Thin Wheels and some Coated Abrasives. The market, over a period of time, has become highly price sensitive. Over the past few years, import of low cost products with acceptable quality has substantially increased. Unscrupulous trade practices by some of the players give them undue cost advantage. Key success factors are good quality, cost, innovation, differentiation, service and capability to provide total grinding solutions.

### Development & Outlook

Saint-Gobain is a major player worldwide in Abrasives. It has a strong product portfolio, a strong R&D set-up with projects in both basic and applied areas and global reach, with plants and marketing/sales organizations all over the world. GNO benefits from being a part of such an organization, in terms of access to all developments in products and process technology, sourcing of products and development of exports.

Over the past few years, the growth in manufacturing and mining has been moderate to low and this has affected the Abrasives Business. Demonetisation towards the end of 2016 had a lingering effect. Implementation of the Goods and Services Tax Act, 2017 ("GST") from July '17 created certain uncertainty both leading upto it and in the immediate aftermath thereof. This also led to price corrections mostly on the lower side. However, during 2017-18, there was a strong revival of the Auto and Steel sectors. On the other hand, there was still little or no improvement in private investment and in project activity. Besides, the Construction sector continued to have a low level of activity. Consequently, volume growth was below expectations and whatever growth was there it was mainly on account of new products and new markets (including export markets). While efforts were made to increase product prices, in a competitive and low-growth and low inflationary market, success was limited and the increase was below expectations. Under these circumstances, the business delivered a reasonable performance with improvements in several areas.

The "Next Level" initiative continued to engage the employees at all levels and there was progress on several dimensions. In addition, working capital, in general, and the quality of receivables and inventory, in particular, were in good shape. All in all, the Abrasives business strengthened its market and its financial position during the financial year.

Looking ahead, the short term outlook is better than it has been in the recent past. However, rising input and energy costs could be a dampener.

Having said that, the medium term outlook is positive and the business is well-placed to benefit from growth of the industrial economy as and when this takes place. Under these circumstances, in the current fiscal, the business will focus on growing volumes (new products, new markets-domestic and export) and on increasing prices while continuing to work on World Class Manufacturing and on implementing various marketing programmes and The Next Level initiatives.

### Risks & Concerns

- (i) **Industry & Market:** The Abrasives business caters to a number of industries such as Steel, Automobiles, Auto Components, General Metal Fabrication, Construction and Woodworking. The dependence on any single industry segment is less than 15%. Demand for Abrasive products can get affected if all sub-segments of the industry perform badly at the same time. Normally, this happens in an economic slowdown. There are a number of large customers serviced directly and there are several dealers to service small and medium customers. The largest customer accounts for less than 3% of the total sales and the largest dealer also accounts for less than 3% of the total sales. In order to minimize the impact of a domestic downturn, GNO has been putting in efforts to develop export markets and will continue to do so. Export sales are not concentrated in any single country, but are spread over several countries.
- (ii) **Technology:** Abrasives have been used over a very long period of time and technological changes in terms of applications are gradual. GNO Abrasives is well positioned to anticipate and take advantage of these technological changes as Saint-Gobain is a World Leader in Abrasives with a very strong R&D Centre in the USA with regional R&D centers located elsewhere (including a Centre in India). Both basic and applied research takes place at these R&D centers. GNO has full access to all the research and technology developments.
- (iii) **Competition:** The Abrasives Market has clearly been evolving from two major players to multi-players. The competitive landscape has become much more dynamic. With the economies in Europe growing very slowly, the attention of many global players has turned towards India and China. On the other hand, cheap but decent quality imports from China have started to flood the markets in India in last few years and now they are expanding more rapidly. Likewise, the Power Tool sellers too have become more active in offering Abrasive accessories. Thus on the one hand we have competition from the high end European manufacturers and on the other, from the low end Chinese imports. Hence it is important to be differentiated as well as highly competitive to stay ahead in the market. To meet the growing challenges in the market, the business will have to continue to invest in technology, capacities and capabilities and provide superior solutions.

## CERAMICS & PLASTICS SEGMENT REVIEW

The main businesses in this segment are:

- (i) Silicon Carbide;
- (ii) High Performance Refractories;
- (iii) Performance Plastics.

### (i) SILICON CARBIDE (“SiC”)

#### Product & Plant

Silicon Carbide grains are used primarily as raw material in the manufacture of Abrasives, Refractories and for stone polishing. SiC is manufactured at the plant located at Tirupati in Andhra Pradesh. SiC is also manufactured by the Company’s subsidiary, Saint-Gobain Ceramic Materials Bhutan Private Limited, at its plant near Phuentsholing in Bhutan. Both the plants are certified under ISO 9001, ISO 14001 and OHSAS 18001.

#### Industry

In the domestic market there are three main players (including GNO) in the SiC business. GNO is the market leader. This market is also catered to by imports, mainly from China and Vietnam. The key requirements for success in the industry are quality and cost competitiveness. Entry barriers are high by way of capital investment and technology.

#### Development & Outlook

The Silicon Carbide business had another difficult year. Domestic demand for SiC continued to be stable. The business lost further market share to imports (primarily from Vietnam/China). Exports improved over last year particularly in the second half. The inflow of low priced imports from Vietnam and China put increasing downward pressure on domestic prices for most of the year. Prices, however, started firming up in the last quarter. It is not clear if this trend will continue. On the supply side, production at your Company’s Tirupati Plant was better than previous year in the first half, thanks to higher energy availability from APGPCL (Andhra Pradesh Gas Power Corporation Limited), on account of improved availability of gas. Further, prices of key raw materials increased significantly during the fiscal year.

Although from an external perspective, the outlook for the business in 2018-19 continues to be uncertain, the worst seems to be over. The demand and supply situation should be stable or improve, while prices are likely to rise. Input prices are also expected to be stable around current levels. The focus in 2018-19 will be on price improvement and cost management. In the medium term, the business needs to find an economically viable source of crude to grow.

#### Risks & Concerns

The major short term risk is posed by aggressive pricing by competitors from China and Vietnam even as input costs (mainly, raw petroleum coke) rise, thus squeezing margins. From a medium term perspective, the major risk is that of rising electricity costs which may make it unviable to produce SiC crude at Tirupati.

### (ii) HIGH PERFORMANCE REFRACTORIES (“HPR”)

#### Products / Plants

Refractories are used for processing ferrous and non-ferrous metals, as kiln furniture to fire ceramic wares, as filtering media, as wear resistance material and also as body and vehicle protection plates. GNO manufactures (mainly) silicon carbide refractories and high alumina monolithics. GNO offers complete solutions with expertise in design, engineering and manufacturing of refractory systems for most of the demanding, high temperature and wear applications. In the monolithics business, we also provide installation training and support as part of our product-service package. HPR has two plants: one is located at Bengaluru and other at Halol, near Vadodara, in Gujarat. Both the plants are certified under ISO 9001, ISO 14001 and OHSAS 18001.



## Industry

GNO's High Performance Refractories Business caters to specialised refractory and ceramic product applications that straddle across industry segments like primary and secondary metal (ferrous / non-ferrous) production, Heat Treatment, Waste to Energy Conversion, Insulators, Abrasives, Porcelain and Sanitary-ware. Specialised ceramic product based solutions are also used for Armour application (protection of human and vehicular bodies) and applications that require resistance to wear.

## Development & Outlook

The financial year 2017-18 was a good year for the business with strong growth in domestic volumes and even stronger growth in exports. Margins, however, came under pressure, as input prices increased sharply, while raising product prices was difficult. Several growth opportunities have been identified and developed in the Foundry, Iron & Steel and Wear Resistance segments in the domestic market and in the Ceramic and Foundry segment in export markets. In 2018-19, the Foundry and Iron & Steel markets (both domestic & exports) and Porcelain Dinnerware in the export markets will be the main drivers of growth.

## Risks & Concerns

Continued low investment in new projects will adversely impact growth. Product acceptance and competitive pricing will continue to be critical in export markets.

### (iii) PERFORMANCE PLASTICS ("PPL")

#### Product, Plant & Industry

The Performance Plastics business produces and markets more than 800 standard and custom-made polymer products through three business segments: Engineered Components ("ENC"), Fluid Systems ("FLS") and Composites ("CMP"). Each demonstrates innovation, responsiveness to customer needs and polymer expertise.

The major product lines in PPL are Bearings, Seals, Tubing & Hoses, Films, Fabrics and Foams. The major markets addressed are Automotive, Oil & Gas, Life Sciences, Construction, Energy and General Industrial.

GNO has a plant for ENC and FLS products situated at Bengaluru. This plant is certified under ISO 9001, ISO 14001, OHSAS 18001 and TS 1694.

#### Development & Outlook

The major growth drivers are:

1. New products and new markets
2. Success in new applications
3. Broad-basing of existing applications and markets
4. Specification driven approvals at customers

The PPL business had an excellent year helped by steady growth in the Composites and Automotive segments. One of the key markets for the Plastics business is the automotive passenger vehicle market which witnessed growth in 2017-18. The focus has been on defending our high share in conventional applications, while trying to grow new applications. Composites business witnessed good overall growth by identifying new applications and competition conversion. The Oil & Gas segment again declined in this financial year. The life sciences business, witnessed a slowdown in growth on account of FDA-related stoppages at some of our pharmaceutical customers. The main aim of the business in 2018-19 would be to strengthen its position in existing markets, while accelerating growth in new markets in the industrial, life sciences and construction segments. On the operations front, plans are being made to accelerate localization initiatives and to improve the cost position of the business in key growth segments.

The key for growth of the PPL business is to have a well-trained, technical sale and application engineering organizations with good market coverage in order to identify and develop new applications and deliver high growth. Building such teams will continue to be a key priority for the business.

## Risks & Concerns

Demand stagnation in key markets like Automotive, Life Sciences and Oil & Gas is a major risk. Depreciation of the Rupee is also a risk as the business is import-intensive. Aggressive pricing action by competition (including low-cost Chinese imports) in certain segments is another risk.

## Risks & Concerns – Others

### 1. Financial

GNO's financial management has always been governed by prudent policies, based on conservative principles. Currently, GNO is a debt-free Company. All the commercial transactions entered into by GNO in foreign currencies are managed by hedging them appropriately to minimize the exchange risk of the currency. GNO has a well-defined and structured treasury operation, with the emphasis being on security.

### 2. Legal & Statutory

Contingent Liabilities: Details of Contingent Liabilities are in the Notes forming part of the financial statements.

Statutory Compliance: GNO ensures statutory compliance of all applicable laws and is committed to timely payment of statutory dues.

## HUMAN RESOURCES

GNO's Human Resources (HR) policy aims to create a work environment that is conducive for the professional and personal development of its employees. GNO continued to invest in training people in Environment, Health and Safety and in World Class Manufacturing and to provide an environment in which employees can give their best and realize their full potential. At the end of the financial year, there were 1820 employees.

## OVERALL PERFORMANCE

After a difficult first half and following the implementation of the GST, the economy witnessed strong growth from November 2017 onwards. For GNO, the results of the second half were much better than the first half. During the year under review, your Company's sales and operating profit registered a robust growth of 12.6% and 25.9% respectively.

## INTERNAL CONTROL SYSTEMS

GNO has an effective internal control environment which ensures that the businesses and operations are managed efficiently and effectively, assets are safeguarded, regulatory requirements are complied with and transactions are recorded after appropriate authorizations. The efficacy of the internal control systems is validated by Internal as well as the Statutory Auditors. The Company's strong and independent internal audit function performs regular audits. Every quarter the significant audit findings, the corrective steps recommended and their implementation status are presented to the Audit Committee.

## SEGMENT FINANCIALS

GNO has identified two segments in line with the Accounting Standards on Segment Reporting. The segments are Abrasives and Ceramics & Plastics.

## CAUTIONARY STATEMENT

*The Management Discussion and Analysis Report contains a few forward looking statements based on the information and data available with the Company and assumptions with regard to the economic environment, the government policies etc. The Company cannot guarantee the validity of assumptions and performance of the Company in the future. Hence, it is cautioned that the actual results may differ from those indicated, expressed or implied in this report.*