

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

GENERAL REVIEW

Grindwell Norton Ltd (“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 42.6 billion in 2019. Saint-Gobain has organized its businesses into two broad areas: Construction or Building related businesses that serve Regional markets and businesses that serve Global markets. The businesses that serve Global markets fall within the High Performance Solutions sector of Saint-Gobain. GNO’s businesses are part of the High Performance Solutions sector. Within GNO, the businesses are divided into two major segments:

1. Abrasives
2. Ceramics & Plastics

BUSINESS ENVIRONMENT

The financial year 2019-20 was a difficult year for India. Even before COVID-19 was declared a global pandemic, the World economy and the Indian economy were in decline, buffeted by trade tensions, regional conflicts and volatile markets. In 2019-20, India will have registered its lowest GDP growth (about 4.5%) in more than a decade. The contribution of the industrial sector to this decline has been significant with the Index of Industrial Production (IIP) registered a decline of 0.7% in the financial year (its worst performance since the late seventies). The decline of the IIP was primarily on account of the manufacturing sector. Led by the sharp contraction of the auto sector, the decline in manufacturing was fairly broad-based. Unlike in recent years, the economy faced an unexpected dip in consumer demand. Partly, this was due to the decline in credit supply which was aggravated by the financial crisis faced by the NBFC sector. Meanwhile, investment demand continued to be subdued. The sudden and severe lockdown in March made matters much worse. The good news was that overall inflation was relatively stable (notwithstanding the spike in retail inflation in the last few months on account of food prices). The exchange rate, however, was volatile and depreciated by about 10% (half of this depreciation occurred in March).

ABRASIVES SEGMENT REVIEW

Products & Plants

Bonded Abrasives generally available in the form of wheels and other shapes such as segments, sticks etc., are used for various 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 and weld preparation etc. Bonded Abrasives are used by a very large number of Industries like Steel, Bearings, Auto Ancillaries, Auto OEMs, Cutting Tools, Needle, Razor, Food Processing, Aerospace and General Engineering etc. The variety of products is large and mainly consists of custom built, Made-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. While the vast majority of these products are made by GNO in India, some are sourced from other plants of Saint-Gobain or from third parties. Saint-Gobain has a strong backward integration when it comes to Abrasives as the Ceramic Materials Division of Saint-Gobain manufactures high-end Abrasive grains. Besides, Saint-Gobain has strong Research and Development capabilities and is uniquely positioned in the Abrasives industry.

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/ISO 45001. Besides, to augment its manufacturing capacity, GNO also has contract manufacturing facilities in India and extensive sourcing arrangements from countries outside of India.

Industry

The Abrasives industry in India currently has two major players offering a full range of Abrasives products, one of which is GNO. GNO has a leadership position in several product-market segments. Apart from these two major players, there are several European, Korean and Japanese players present in the market through their agents or distributors. Also there are several small local players present in a select range of products. Over the years, imports from China have significantly increased in the lower tiers



of the market. Quality and performance levels of these products have also improved, thus offering a very good value proposition to the customers. Coupled with increased affordability and availability of Power Tools, the end-users have been shifting to more mechanized forms of work leading to a strong growth in the Right Angle Grinding products. Most of the major European, Japanese players have their offices and dedicated sales and in some cases, Application Engineering teams, in India. Many of them have moved to offering billing in INR from local ware-houses, post GST implementation.

In the case of Coated Abrasives, a few important international players have set up conversion facilities in India. Also, most of the Power Tool players are now focusing on developing their accessories business which includes Thin Wheels and some Coated Abrasives. Besides, companies in related fields (e.g. Cutting Tools, Paints) have also entered the market. Thus, the market, over a period of time, has become highly price sensitive. Despite GST implementation, continued unscrupulous trade practices like under-invoicing or cash trade, by some of the market participants give them an undue cost advantage. The Key Success Factors for Abrasives in India are good, consistent quality, cost, right value proposition, innovation and 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 a 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.

Many of the important end-user industries (led by all segments of the Auto sector and including industries like Bearings, Cutting tools, Machine tools, General engineering etc) started the year on a weak note and declined further as the year unfolded. Overall demand weakened across the domestic industrial sector. Order inflow was muted as was channel offtake. The business continued to focus on new products and new markets/channels and gained market share. This was not enough to compensate for the low industrial activity and domestic volumes witnessed a significant decline. The sudden lockdown in March made matters worse as nearly two weeks' sales were lost. While export markets witnessed similar weak demand conditions, fortunately, new markets were opened up and, overall exports witnessed a significant increase. This helped to restrict the sales drop to 5.2%. While input costs were relatively stable, prices were increased to recover some of the margin declines of the previous year. Despite this, operating profit fell by 20.3% mainly on account of the decline in volumes and an adverse sales/product mix. Given the circumstances, the business deferred capital expenditure and controlled working capital which witnessed a significant reduction.

Looking ahead, given the severe demand and supply side shocks faced by the Indian and global economies, the outlook is very uncertain. It seems clear that the unwinding of the lockdown will be a slow process. In recent weeks, all four manufacturing sites have commenced partial operations. Doing this has been difficult and operational costs are expected to increase due to the needs to comply with new safety / sanitary requirements. Activity levels are expected to remain low and the ramp-up will be slow. In the short term, the business will focus on serving customers (especially, exports), reducing costs and conserving cash. Until there is more clarity, capital expenditure will be put on hold. We expect market conditions to remain weak and resumption of industrial activity to be slow. As such, the outlook for 2020-21 is negative. We will, however, be agile to adapt to the evolving external environment.

Having said all that, the medium to long-term outlook for the business is very positive. The business is well-placed to benefit from the revival of the industrial economy as and when this takes place.

Risks & Concerns

- (i) **COVID-19:** As explained above, the industrial recovery is likely to be slow. Besides, the crisis can impact the evolution of our customers both negatively and positively. We will stay very closely connected with our customers. We will take utmost precautions to safeguard our employees on the one hand while trying to meet the requirements of the customers / markets in an economically viable manner. Conserving cash, securing the quality of receivables will be critical. We will also keep a close watch on the evolving scenario and be prepared to adapt quickly to the changing environment.
- (ii) **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 or if a significant downturn happens in Auto industry that impacts Abrasives potential significantly, directly or indirectly. 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 4% 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.

- (iii) **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 one of the World's Leading manufacturers of 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.
- (iv) **Competition:** The Abrasives Market has clearly been evolving from two major players to multi-players. The competitive landscape has become much more dynamic with players from Power Tools, Paints, Cutting Tools and other trading-houses actively entering into the market in the last few years. We have, on the one hand, 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) Performance Ceramics and Refractories (erstwhile, High Performance Refractories);
- (iii) Performance Plastics;
- (i) **SILICON CARBIDE ("SiC")**

Products & Plants

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 ISO 45001.

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, Vietnam and Russia. 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 saw a drop in domestic demand over the previous year primarily due to the severe slowdown of the industrial sector, in general and the contraction of the auto sector, in particular, Exports demand was also weak - especially from Europe and SE Asia. The prices were also under pressure primarily due to low priced imports from China, Vietnam and Russia. Except for a few specific markets, we were able to hold prices. On the supply side, production at your Company's Tirupati Plant was lower than the previous year, due to lower electricity availability from APGPCL during this financial year. The cost of key raw material softened during the year after witnessing steep increases during 2018-19.

The actions taken by Governments around the world to combat the pandemic have created a high level of uncertainty and the short term outlook is negative. While prices may be under pressure, the demand and supply situation is likely to remain stable in the medium term. The focus in 2020-21 will be on cost management. In the medium term, while the key customer segment of steel will grow, we need to find an economically viable source of crude in order to sustain our growth.

Risks & Concerns

The major short term risk is aggressive pricing by competitors from China, Vietnam and Russia squeezing margins. From a medium term perspective, the major risk is that rising electricity costs may make manufacture of SiC crude at Tirupati unviable.

In your Company's subsidiary in Bhutan, the local Environmental Commission has been insisting that we shift to lower Sulphur RPC in place of what we are using today. However, we have, in our many discussions with them, communicated our inability to procure low Sulphur RPC as its export from India is banned. While we have tried through IOC to get this ban lifted, we have not been successful. If the Environmental Commission is adamant, we will face the risk of a temporary or permanent closure of our operation in Bhutan.

**(ii) PERFORMANCE CERAMICS AND REFRACTORIES (“PCR”)****Products & Plants**

GNO's PCR Business Unit makes Ceramic and Refractory products for a wide range of industrial applications. Ceramic products are used as kiln furniture to fire porcelain wares, as filtering media, as wear resistance materials and also as body and vehicular ballistic protection plates. Refractory products are used to line furnaces that are used for primary or secondary processing of ferrous and non-ferrous metals (Aluminium, Iron making etc). The products manufactured mainly include Silicon Carbide based “shaped refractory and ceramic products” and “monolithic refractory products”. PCR Business offers complete solutions with expertise in design, engineering and manufacturing of ceramic and refractory systems for identified applications. In the monolithics business, we also provide installation, training and support as part of our product-service package. PCR has two plants: one is located at Bengaluru, in Karnataka and the other at Halol, near Vadodara, in Gujarat. Both the plants are certified under ISO 9001, ISO 14001 and OHSAS 18001/ISO 45001.

Industry

PCR products find use in applications across industry segments like Primary Iron & Steel, Primary Non Ferrous Metals (Aluminum, Copper, Zinc Etc.), Secondary Steel, Secondary Iron, Secondary Non Ferrous (Aluminum, Copper), Petrochemicals. PCR products are also used in applications across industry segments like Sanitary-ware, Dinner-ware, Ballistic Armor Protection, Wear Resistance Systems etc.

Development & Outlook

Despite very low sales in March (on account of the sudden lockdown), the financial year 2019-20 was a good year for the business with good growth in domestic volumes and in exports. On a low base (the previous year had witnessed a sharp increase in input costs and some customer rejections), the operating margin and profits improved significantly, but still remained below expectation. The business continued to identify new growth opportunities and develop the opportunities identified during the last few years in the following segments: Foundry, Iron & Steel and Wear Resistance segments in the domestic market and Ceramic and Foundry segment in export markets. In 2019-20, the Foundry, Aluminium and Iron & Steel segments (both domestic & exports) and Porcelain Dinnerware in the export markets were the main drivers of growth. Unfortunately, we suffered one setback in the export market. Over the last few years, we had developed a fairly sizeable business in the Foundry segment in Pakistan. Following the deterioration of relations between India and Pakistan, trade has ground to a halt as India imposed high duties on imports from Pakistan and Pakistan banned imports from India.

The outlook for 2020-21 is very uncertain. While we will start the year with a healthy order book, it is quite possible that customer schedules will be deferred. We have recently commenced partial operations at both our manufacturing sites. This has proven to be difficult. The business will focus on staying in close contact with its customers (especially, exports and will be prepared to meet their evolving needs. The business will also continue to identify and develop new opportunities. In the short term, the crisis provides an opportunity for the business to re-set its cost base.

Risks & Concerns

A large number of customers (across industry segments) have been severely impacted by lockdown following the COVID-19 VIRUS outbreak. This is likely to severely impact overall demand in the first quarter of 2020-21. There will also be a lot of pressure from our customers to reduce prices. Receivables management will become a major challenge. Detailed plans to address these risks and concerns are being put in place.

The business has a very high level of exposure to global supply chain- both for inputs and Sales. This could result in longer term changes as we move forward.

Continued low investment in new projects will adversely impact growth. Product acceptance and competitive pricing and raw material availability and sourcing will continue to be critical in both domestic and 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”), Life Sciences (“LS”) and Composites (“CMP”). Each of the segments 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/ISO 45001 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 a muted growth this year primarily due to slump in the Automotive segment. The severe lockdown in March aggravated the situation. One of the key markets for the PPL business is the automotive passenger vehicle market, which witnessed a sharp decline in 2019-20 and led to drop in volumes for our Bearings business. The Oil & Gas segment again declined in this financial year leading to drop in the Seals business. The Life Sciences market segment had an excellent year because of strong market growth complemented by conversion of new customers and applications. The Composites business, however, suffered due to low growth in industrial and construction segments. Looking ahead, the short term is clouded in uncertainty and the outlook is negative for the Engineered Components (Bearings and Seals) segment and the Composites segment. The outlook for the Life Sciences business is, however, positive. The main aim of the PPL business in 2020-21 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, the new Thermoplastic Extrusion line has commenced production from Q3 for both domestic and global customers after completing all validation requirements. Seals localization has been completed and small orders have been executed for domestic customers. Our localization initiatives and our ability to pass on cost increases ensured we delivered on our profitability targets in spite of falling short of our Sales target.

Presence of well-trained technical sales and application engineers with good market coverage is a key requirement to identify and develop new applications and deliver high growth. Building such teams will continue to be the high priority for the business.

Risks & Concerns

Demand stagnation in key markets like Automotive, 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. 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. The Company monitors the compliance under various statutes periodically.

HUMAN RESOURCES

GNO's Human Resources Policy (HR) policy aims to create a work environment that is conducive for the professional and personal development of employees. GNO continued to invest in training people in Environment, Health and Safety and in World Class Manufacturing and to provide a work environment in which employees can give their best and realize their full potential. At the end of the year, there were 2020 employees.

OVERALL PERFORMANCE

The economic slowdown during the financial year 2019-20 was due to weak investment demand and a slowdown in private consumption, subdued rural demand, a decline in growth of the world economy, the depreciation of the Rupee, market liquidity and the COVID-19 pandemic etc. Against this backdrop, in 2019-20 your Company's standalone revenue from operation and operating profit has declined by 0.9% and 4.3% respectively and consolidated revenue from operations and operating profit declined by 1.2% and 5.7% respectively. However, due to adoption of lower tax regime the profit after tax on standalone and consolidated



results improved by 11.7% and 8.9% respectively. There are no significant changes in the key financial ratios as mentioned in the Schedule V, Part B(i) of the Listing Regulations. Return on Net Worth (standalone) for the financial year ended March 31, 2020 (15.55%) is higher than of the previous financial year (15.07%) and Return on Net Worth (consolidated) for the financial year ended March 31, 2020 (15.49%) is higher than that of the previous financial year (15.37%).

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 authorisations. The efficacy of the internal control systems is validated by Internal as well as the Statutory Auditors. The Company's strong 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 and 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.

