

MANAGEMENT DISCUSSION AND ANALYSIS REPORT (ANNEXURE 'B' TO THE DIRECTORS' REPORT)

OVERVIEW

TEA

Achieving a historic feat, the Indian tea industry recorded the highest ever production as well as export figures during the financial year 2017-18. The total tea production was 1325.05 million kgs, an increase of 74.56 million kgs (5.96%) as compared to 2016-17. The total quantity of tea exported during the financial year 2017-18 stood at 256.57 million kgs, while the foreign exchange realized from exports of Indian tea was US\$ 785.92 million.

The growth in exports was majorly driven by the following countries: Egypt (increased by 7.49 million kgs), Iran (increased by 6.95 million kgs), Pakistan (increased by 4.96 million kgs), China (increased by 2.91 million kgs) and Russia (increased by 2.89 million kgs). The earlier record for the highest quantity of tea exports was during the financial year 1976-77 when the total quantity exported was 242.42 million kgs.

During 2017 (Jan-Dec) the total tea exported was 240.68 million kgs. The share of southern India was 92.27 million kgs as compared to 88.85 million kgs during 2016.

Outlook

Global tea production is expected to go up on the back of higher production in Kenya. This could impact the prices to move downwards.

OVERVIEW

Rubber

Rubber finds application in number of products, which are used in all industries. India is the sixth largest producer and fourth largest consumer of natural rubber in the world and also the fifth largest consumer of natural rubber & synthetic rubber put together. The total production of rubber in India was 6,94,000 tonnes whereas the consumption was 11,10,660 tonnes during the financial year 2017-18. However, rubber production in India has been lagging behind consumption the deficit in demand and supply being met through cheaper imports from Indonesia, Thailand, Malaysia and Vietnam. Around 4,62,000 tonnes was imported into the country. Imports are mostly in the form of TSR and Block rubber.

With international block rubber prices below the current Indian rubber prices, the tyre industry has been depending largely on imports to meet its requirement despite hike in import duty.

Outlook

India is the fastest growing passenger car market. Auto Tyres & Tubes consumes the largest share of rubber in India. The automobile industry in India is growing at a healthy rate and this trend is expected to continue, over the next few years. The sale of passenger vehicles are increasing. But still it indicates a relatively small penetration level, in comparison to other developed and developing countries.

These indicate, immense potential for growth in India's automobile industry. Rubber finds use not only in tyres but also in a variety of auto components such as fan belts, mountings, hoses, etc. These are items that need to be replaced as part of regular maintenance. Therefore, the ever increasing population of vehicles on the road, as well as the rapidly expanding auto components space, indicate a captive and growing market for rubber products and along with steady increase in income levels and consumer spending, demand for consumer durables, will rise many of which contain rubber components. Hence outlook of the Indian rubber industry is on the whole positive.

This, along with the sustained growth in automotive sector in China and upward trend in crude oil could push rubber prices upward.

OPPORTUNITIES AND THREATS

Tea and Rubber plantation is dependent on the vagaries of nature, to combat this we continuously improve our methods in harvesting methodology. It is also labour intensive and subject to stringent labour laws. High labour cost, social cost, high infrastructure cost and rising energy and other input costs remain its major problems. Shortage of labour during peak season in some pockets is also a cause for concern. These problems will be addressed by improving labour productivity through mechanisation and various other initiatives, such as mechanisation which your Company has embarked upon.

Your Company's strategy, keeping in mind the macro trends, is to continually better its performance by driving innovation to deliver differentiation through existing and new products and by moving up the value chain in terms of marketing and reducing cost.

With the expected stabilisation of rubber prices and HML achieving better volumes in both tea and rubber through, own and bought operations, the Company should be able to further improve its performance.

INTERNAL CONTROL SYSTEM

HML has in place an adequate Internal Control system commensurate to its size and nature of operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safe guarding the assets from unauthorized use or loss, extending transactions with proper operation and ensuring compliance of corporate policies. Internal Control is supplemented by regular management review, documented policies and procedures, as also internal audits. The Company has an Audit



Committee, details of which have been provided in the Corporate Governance report. The Audit Committee reviews Audit Reports submitted by Internal Auditors. Suggestions for improvement are considered and the Audit Committee follows up implementation of corrective actions. The Committee also meets the Company's statutory auditors to ascertain their views on the adequacy of internal control systems in the Company and keeps the Board informed of its major observations from time to time.

HUMAN RESOURCES

As on 31st March 2018, 10,412 number of employees are on the rolls of the Company. Employee relations remained satisfactory during the period under review. The Company would like to record its appreciation to its employees and their whole hearted support and cooperation during these difficult periods.

FINANCE

For the financial year 2017-18 EBIDTA was at Rs 2128.91 Lacs (PY-Rs 2297.85 Lacs). The operations of the Company still remain affected in light of the restraint orders passed by the Special Officer on acceptance of land tax, rubber tree felling etc. On 11 April 2018, The Hon'ble High Court of Kerala passed verdict in favour of the Company by setting aside the proceedings of the Special Officer. The authorities are awaiting further instructions from the Government of Kerala in this regard.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations are "forward looking statements" within the meaning of applicable securities laws and regulations. Actual result could defer materially from those expressed or implied. Significant factors that could make a difference to the Company's operations include domestic and internal economic conditions affecting demand and supply, commodity prices, changes in Government regulations, tax regimes and other statutes. Market data and product information contained in this Report have been based on information gathered from various published and unpublished reports and their accuracy, reliability and completeness cannot always be assured.