MANAGEMENT DISCUSSION ANALYSIS

Brief about the Company

The Hi-Tech Gears Ltd. is an auto component manufacturer (Tier 1 supplier) of world class repute. The Company has a foothold in US and Canada with aggregate revenue of ₹ 7,560.33 million on consolidated basis in F.Y. 2020-21. It is a listed-on country's premier stock exchanges, ie BSE & NSE and is regularly traded scrip. Details of the trading during the period under review can be referred in Corporate Governance Report annexed in the Annual Report. It has manufacturing facilities in Bhiwadi and Manesar with subsidiary companies in North America.

The Company spans a spectrum of products, including transmission and engine components, driveline components, engines design services and advanced technology-enabled products and solutions at the fore front of cutting-edge technology. The Customer of the company ranges from the manufacturers of two wheelers, four wheelers, off road equipment, generator manufacturers, medium and heavy vehicles etc.

The Micro Economic Environment

The world economy has been experiencing volatility due to its inherent characters, such as geo-political situation, numerous macro-economic factors, trade & border tensions among major economies etc. on the business landscape, however from almost one & half years the level of unpredictability is increased due to new reason, i.e. novel corona virus pandemic (Covid-19). The world is going through a catastrophe state due to pain by the unwarranted spread of virus since its outbreak.

The pandemic has taken a turn for the worse in some parts of the world by way of 'second wave or in some parts as 'third wave'. To counter the problem of spreading further, various countries took harsh steps to close borders and issued advisories to suspend visits to/from other countries and imposed various series of complete lockdowns in their territories. Businesses across the world in manufacturing and service etc have seen a major negative impact due to this. Lockdown led to several instances of non-availability of manpower, material and disruption in supply chain affecting severally the economic activities impacting all sphere of human life.

During the time between first wave and next waves, the trade and economies showed improvement and economic activities started supported by the policies of responsible countries, however it could not catch the growth path as it was earlier. Growth is projected to contract by 4% in 2020 on continued benign of Covid-19 impact, great lockdowns, global financing conditions and modest recovery in emerging market and developing economies (EMDEs). Global growth in 2021 is expected to improve to 5% - 6 % range due to lower base of 2020.

However, we must be mindful for the impacts of Covid-19, great slowdowns, weaker-than-expected trade and investment, weakness in trade and manufacturing across all economies on business and humanity, continuation of US-China trade tensions, weaker global economic growth, volatility in financial markets in coming period and need to find solution on an urgent requirement.

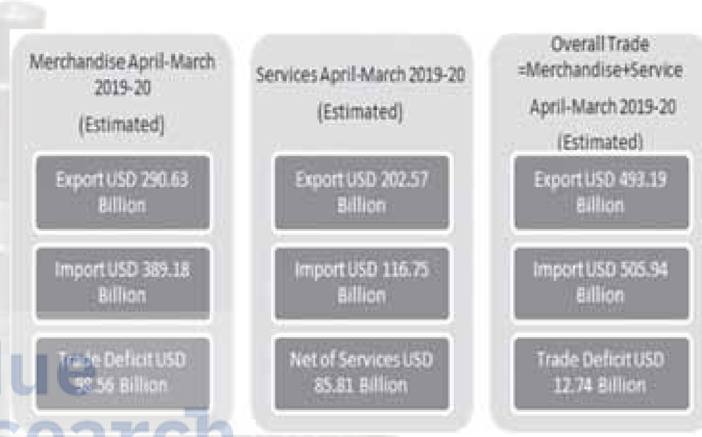
India is no exception to shocks as discussed above, India's growth contracted to 7.3% during FY 2021 due to aforesaid reasons. The fall was there in segments of the economy; however the second half of the FY was still better in terms of the economy post lifting of lockdown during first wave of Covid-19. The prospects for the next year remain positive for majorly for reasons such as, impact of second wave seemingly on the verge of completion, Half of the population is having atleast one shot of vaccination, low base in all segments of economy of FY 2021, determination of people to fight covid, improved consumer sentiment, return of adequate liquidity in the financial system and support from government. However, rising oil prices pose the biggest downside risk besides the currency volatility and other continuing domestic concerns in addition to the threat of third wave.

Indian Foreign Trade

India used to be a protectionist state for a long time, but the country has become progressively more open to international trade. India's main partners are the United States, China, the United Arab Emirates, Saudi Arabia, Iraq, Hong Kong, and Singapore. Currently, trade represents almost 40% of the country's GDP. The country mainly exports petroleum oils (13.2%), diamonds (6.8%), medicaments (4.5%), articles of jewellery (4.2%), and motor vehicles (2.2%), while it imports petroleum oils (21.3%), gold (6.5%), coal and similar solid fuels (4.7%), diamonds (4.6%), petroleum gas and other gaseous hydrocarbons (3.6%).

The unprecedented fall in volume of imports and exports in current period was due to the global economic crisis following the outbreak of the Covid-19 pandemic, with imports plunging as the pandemic decreased domestic demand for crude oil, gold and other industrial products, and exports decreasing due to a reduced demand for textiles, clothing, transportation, and jewellery.

As per the latest estimates for F.Y. 2020-21, India's overall exports are to be USD 493.19 billion, exhibiting a negative growth of 6.66%. Overall imports are USD 506 billion with negative growth of 16.53% over the same period last year.



Though, the Covid-19 impact is very severe, still India trade has reasonably done better and managed marginal decline due to support form partner country and trade policy of government. The trade deficit is USD 12.74 billion, which is lowest in many decades. The major reason was increase in export of services and fall of oil imports due to the lower demand of petroleum products.

As automobile and component export has a considerable chunk in the total exports, data relating to auto is important for analysis.

Automobile Sector and Production Trends

The Indian automobile market made its mark in the world by manufacturing quality products at competitive prices. The Automobile & Auto Component sectors go hand in hand. The Indian auto component industry is amongst the country's rising industries, with tremendous growth prospects. The high quality, low priced engine parts, transmission parts, brake systems and other components made In India are amongst the worlds' favorite. A major contributor in achieving this status is also the technology support extended by India's auto component companies to the automotive manufacturers.

The industry currently accounts for a sizable amount of India's GDP and employs about 30 million people, both directly and indirectly. However, there are certain factors that stand as challenges before the automobile industry. The most immediate challenge is the unevenness of domestic and global markets due to the ongoing outbreak of Covid-19.

The automotive industry makes a significant contribution to the global economy. However, the Covid-19 pandemic has brought forth unprecedented challenges to every sector. The automobile industry, which was already battling its worst slump in two decades, is not spared either. The second wave proved to be more fatal and claimed more lives Factory closures, supply chain disruption and diminishing demand have all taken toll on the industry. The manufacturers of auto components are unable to manage their working capital as they have to bear fixed costs with stressed short-term viability. The lockdown could further lead to job losses, salary cuts and freeze on hiring over the next few quarters, distressing industry employability.

Automakers should now review their supplier strategy across geographies and possibly rely more on indigenous suppliers. The impact for India will have to be re-assessed continuously based on spread and containment of Covid-19.

As per SIAM figures, the performance of the auto industry underperformed in FY20. In the wake of the ongoing crisis, many uncertainties have come into the picture across industries. The repercussions of nationwide lockdown announced by respective state governments from April 2021 onward was already visible in the June 2021 sales figures of the Indian auto sector.

The industry produced a total of 22,652,108 vehicles in financial year 2020-21 as against 26,353,293 vehicles in previous year, registering a decline of 14.04%. The production of Passenger Vehicles declined by 10.58 % (3,062,221vehicles). Within the Passenger Vehicles segment, Passenger Cars deteriorated by 17.80% with 17,72,972 vehicles, Vans also declined by 18.50% however the Utility Vehicles registered a nominal growth of 4.04% with 11,82,085 vehicles.

In financial year 2020-21 there was fall everywhere and in Commercial Vehicle segment, it was the most. It was at 17.42 % with total vehicle production to 624,939 vehicles (PY 756,725 vehicles). Again, M&HCVs was affected the most and declined by 22.02% and LCV declined by 15.38 % with 1,81,242 and 4,34,697 vehicles respectively. The Two-Wheeler segment registered a degrowth of 12.76% in FY 21 by recording total production of 18,349,941units (PY 21,032,927 units). Within this segment, Scooters/ Scooterette also registered a de-growth of 24.40 % and Motorcycles and Mopeds also registered a decline of 8.37 % and 2.07 % respectively in FY 21 over FY 2020. The quadricycle, also registered degrowth by 37.06% at 3,836 units (PY 6095 units). In recent time, the major attraction is the Electric Two Wheelers which grown significantly by 517.94 % at 2,824 units in FY 21as against 457 units in previous year due to its lower costs and advanced technologies.

Overall domestic automobiles sales decreased by 13.60% in financial year 2020-21 with 18,615,588 vehicles. The total of India's automotive exports stood at 4,128,928 in financial year 2020-21 as compared to 4,748,738 in the financial year 2019-20 registering a de-growth of 13.05%.

Risk & Concerns in Automobile and Component Segment

The calamity further makes it highly concerning for the Indian auto industry. Experts believe the pandemic may not decline in the foreseeable time this could lead to longer disturbed periods containment periods, worsening financial conditions and leading to further breakdowns in global supply chains.

The automobile industry is at that point, where it is facing many disruptions at the same time. Though, it just passed the urgent test, i.e meeting the technological changes as BS VI emission norms and now have to apply the Fuel Efficiency norms. This invariably result in increased vehicle's cost on one side and increased period of return of investment on the other side. Fortunately, the confusion of ambition of NITI Aayog and Government's intent is cleared with respect to having only electric vehicles being sold in the country in phased manner. This has been deferred, but the electric vehicles will definitely become popular due the low maintenance and running cost by itself, instead of any mandate.

Vehicle manufacturing is the backbone of many economies and is dependent on China for growth. As trade tensions exacerbate China's economic weakening, manufacturers in other economies, including India pay the price. On the other side, there is an opportunity for 'Make in India' to flourish, post discouragement to import from China.

The auto component industry is regarded as a low operational cost and low margin business. The auto component industry has been battling with its industry specific issues/ challenges such as:

- Infrastructure Challenges & Cost
- Hight freight costs
- Higher cost due to employment and other issues during and post lockdowns
- Problem of counterfeit parts
- Availability of skilled manpower
- Payment of heavy royalty fee to foreign partners on designs and IPRs
- Building R&D competence and Ecosystem
- Fast technological changes
- Heavy capex cost due to fast technological changes for EV.

The auto component industry is not new to the above challenges and it is dealing with them at its best from quite some time. It has almost overpowered the under capacity utilisation and excessive imports of raw material and capital goods. However, from last year it is experiencing the heat of high energy and fuel cost, extreme volatility of currency and availability of finance at competitive rates post emergence of NPAs of Bank and debacle of major NBFCs.

Outlook

The rapidly globalising world is opening newer avenues for the transportation industry, especially while it makes a shift towards electric, electronic and hybrid cars, which are deemed more efficient, safe and reliable modes of transportation. Over the next decade, this will lead to newer verticals and opportunities for auto-component manufacturers, who would need to adapt to the changes via systematic research and development. The Global automotive industry is undergoing a cascade of disruptions that will reshape it in unexpected ways and India is no exception to it.

India is now acting as a global hub for manufacture of commercial vehicles, small & mid size cars and two wheelers. Rapid increase in sales of the small car segment in India has prompted a number of global automobile companies to enhance their capacities for domestic as well as export market.

The effects of demonetisation & teething problems of the initial rollout of GST have been diminishing over and are now rather helping the economy and the industry to grow. However, it has to pass the major test of survival and then back to normal post Covid-19 shocks. Another cause of concern is the increased fuel prices. This will not only increase the freight, cartages etc. but will also impact the sales of vehicles, as the consumer will look for EV options.

Above normal monsoon will help in sowing and harvesting more yield. Various schemes under the ambitions 'Atmanirbhar Bharat' is expected to further boost the business, as and when the Covid-19 related worries are controlled. Additionally, increasing rural demand, growing urbanization, swelling replacement demand etc. may further accelerate the growth of the automobile industry and in turn the auto component industry.

Opportunities, Threat and Mitigation Strategies

At the operational level there are several risks that are inherent to the business of the Company. These are typically transactional in nature. These risks are managed through internal processes and controls. In addition, the Company has to deal with certain major micro risks that affect the Company's strategy implementation, some of which are enumerated below:

Impact of COVID-19: Like any other auto component company, we are also impacted, since our manufacturing facilities were stopped due to government mandated lockdowns. After easing, we started, but our suppliers, but vendors showed their inability to perform due to various restriction. Due to the contractual obligations a lot of fixed expenses had to spent. Additionally, the company had the contractual liabilities towards it customer, which required immediate mitigation.

We are successful to an extent to mitigate the loss and impact. We assessed and kept on watching the situation. We informed our customers, who were also facing the similar situation and together invoked force majeure clause to avoid any contractual liability. We resumed supplies with limited resources of our quality products and do whatever possible to meet, what was required. In doing so many measures were taken, including cutting the establishment and fixed costs. The promoters Directors also waived off their remuneration in order to keep the company going. We expect that the bad time is over, but to become the situation normalised, it may take a longer time than expected.

Steps taken to ensure smooth functioning of operations

- Thermal Screening of all employees and visitors
- Sanitizing the premises and vehicles on regular basis Maintenance of social distancing at all workplaces.
- Enforcing wearing of masks and regular cleaning of hands
- Strictly following the social distancing at workplaces, factories, canteen etc.
- Regular health updates of all the employees and their families
- Promoting awareness through do' and don's posters for all its employees
- Ensuring use of Arogya setu app,
- All customers and vendors have been communicated with about the measures taken by the Company
- Supply Chain is being monitored to ensure availability of material.
- Staggered time schedules and encouraging work from home for the employees, wherever possible.

As the vaccination is identified as best tool to contain the deadly virus, Company is organising mass vaccination drive for the general public living in the vicinity of the factory area. Additionally, the company has sponsored in establishment of a fully loaded ICU ward in a nearby hospital, which will serve to the needy people in case of distress.

Foreign Exchange Fluctuation: The volatility in foreign exchange is now a major concern for the Company for the repayments of the ECB loans. To mitigate the risk, the Company has a natural edge, as the Company is receiving almost 25% of its revenue in foreign exchange through its export sales. Additionally, the management has taken another source of mitigation i.e. fixing LIBOR component in total interest rate agreed for the External Commercial Borrowings to avoid the risk of fluctuation. Further, there was no instance where Company had to engage in commodity hedging activities

Input material: Steel is the primary source and raw material for the products of the Company. It is an important part of the cost of the final product. Rising steel prices continue to be a challenge & pose a threat to the margins of the Company in this competitive auto component sector.

To mitigate the risk, the Company continues to strive to improve its operational performance and develop new components, which are technologically superior and have an edge over its competitors. Additionally, the Company is not dependent upon a single source/ supplier. A core team is constituted which has expertise in vendor management and keeps a track on the price of steel. This team negotiates the price in the best interest of the Company.

Power: The other major cost in production is the energy cost. Presently the Company is getting power from the State Electricity Board as per the prevailing tariff. The current tariffs are very high and occupy a major portion in the overall costing of the product.

To address the energy cost, the Company has implemented a process, whereby it is purchasing electricity through the Electricity Exchange by getting competitive quotes. Further, solar power plants of 400 KW & 250 KW have been successfully installed to reduce the energy cost. Additionally, the Company has put up a a solar plant under captive consumption scheme, which is not only green certification but also reducing the cost considerably.

Customer profile: The Company is primarily a gear & transmission equipment manufacturer and supplier. The Company has a large focus amongst a few groups of customers and industry segment. This limited focus adds to market risks and also highlights the fact that one or some customers moving out could leave a large impact on the operation and financials of the Company. To mitigate this risk the Company is focusing on widening its customer base, entering new user segments and spreading operations across geographies to mitigate the market risks.

Two-Wheeler business: A major share of the Company's business is still generated from the two wheeler segment and is evident from the financials. Competition in the business has also increased significantly. This has had a serious adverse impact on the margins of the component manufacturers. To overcome the risk of dependency on its two wheeler business, the Company has been developing clients for engine and transmission components in India and abroad.

Technology Risk: One of the major challenges for the industry is to build R&D competence and an ecosystem. OEMs have been working on various technologies simultaneously. OEMs expect Tier-1 suppliers for technology updation and material changes. Thus, the Company needs to continuously stay in touch with such progress & needs to evaluate ways to address these issues as well as develop technologies which are affordable and accessible. To mitigate the risks, the Company has always invested in upgrading its technology to meet the changing customer demand.

The attraction of the consumer is slowly shifting to Electric Vehicles. The Company sees this as the opportunity instead of threat. We are keeping a watch and necessary R&D is being done in this direction.

Geographical limitations: Auto component companies have another issue that is geographical limitations. Practically, it is difficult for them to expand beyond certain geographies. Expanding beyond such limits will provide more fruits in terms of revenue and profits. However, tapping into such markets is also not easy due to many factors such as acceptability, quality of the product, regulations, lack of capital, limited manpower and other resources.

To address the above mentioned concern, the Company has been regular in reaching out to other geographies. It has almost achieved the exports to the tune of around 30% of the total exports. We are committed to increase this number. Further, the Company has acquired few entities in the NAFTA region which will be a progressive step in the right direction.

Increased Freight Cost – since the outbreak of Covid-19, the freight cost is increased due to various reasons. Some of them are, restriction on non-essential movement, non availability of trucks, skilled drivers and support staff, frequent closure of major routes and ports etc.

Though, the company does not have control over the reasons as aforesaid, as these are general and impacting all industries, still the company is taking all possible measures to reduce the impact of increased cost, such as bulk booking orders, requesting customers to share the cost as pass through.

Regulatory Change: Regulations are changing to accommodate the awareness about environmental responsibilities. Stringent emission and safety norms are playing an increasingly important role globally. In the recent past, the government has focused on tighter emission norms. Now, the focus is also coming on to battery and hybrid vehicles to promote green vehicles. Of late, safety has also been attracting governmental attention. The Company is committed to comply with all applicable environmental and related regulations by gearing up for the technological changes in the products, so that it meets the requirements. Keeping this in mind, Company has invested some funds in a South Indian entity in research and advancement of leading edge expertise in the design and manufacturing of high reliability motors, drive system, long battery life for the electrification of road transport, carbon free electric vehicles.

Brief of Financial Results

On standalone basis, the total turnover stood at ₹ 5,326.38 million compared to ₹ 5,155.28 million during the previous year. The total turnover from operations stood at ₹ 5,223.79 million as compared to ₹ 5093.25 million in F.Y. 2019-20, registering a growth of 2.56%. Due low demand and in the absence of clarity on policy regulation, de-growth in all verticals was clearly visible. The profit before tax stood at ₹ 496.40 million as compared to ₹ 153.02 million in the previous year, recording a increase of 224.40%. EPS stood at ₹ 19.87. Similarly, the net profit after tax stood at ₹ 372.88 million as compared to ₹ 77.42 million in previous year, registering a significant growth of 381.63 %.

The Company recorded an export turnover of ₹ 1,245.65 million compared to ₹ 1,334.44 million during the previous year, recording a decrease of 6.65% The total exports are now 23.85% of the total turnover.

On the consolidated side, the turnover was recorded till the close of the financial year at ₹ 7,560.33 million compared to ₹ 7,334.94 million during the previous year. The profit after tax stood at ₹ 287.87 million as compared to ₹ 82.76 million in previous year. The consolidated financials of the Company with its subsidiaries are attached at the relevant part of this Report.

Despite the stressed economy and industry, your company did well in all its segments, this is because in the second half the demand picked up and the Company took the benefit of its operational excellency. The improvement in revenue was mainly in its domestic business, though the exports also showed improvement in later part of the year.

In the current year, we will focus on quality delivery at optimum costs to achieve the lost place at the earliest. Company is also considering strengthening the 'After Market' division to have more revenues. New initiatives are taken in North America to integrate into the Global Value Chain, with our footprints in both Canada and the USA. The objective of these initiatives is to further strengthen our processes, build better relationships with our customers and consolidate our position as a manufacturer of quality products for the auto sector.

Further, the Company will leverage its positioning, in view of the technological changes, it is already BS VI compliant due to superiority on technical aspects. It is also relying on building its relationships and product development plans to grow further. The Company believes that financial year 2020-21, while being challenging, will be a year when not only the take back its lost glory but will continue its growth momentum.

Key Ratios

Key financial ratios are given below:

Particulars	Unit	F.Y. 2020-21	F.Y. 2019-20	Change over previous year	Reason for material change
Debtors Turnover	Times	6.3	8.6	(27%)	Increase in sale in 2nd half of the FY 20-2021, however there was no sales in last 10 days of fourth quarter of F.Y. 2019-20 due to stringent lockdown caused by Covid-19.
Inventory Turnover	Times	9.2	9.1	1%	No Material Change
Current Ratio	Times	1.2	1.3	(4%)	No Material Change
Debt Equity Ratio	Times	0.65	0.72	(9%)	Due to repayment of Debt and increase in retained earnings.
Interest Coverage Ratio	Times	3.8	1.7	121%	Due to Increase in profit.
Operating Profit (EBIDTA) Margin	%	17.7	12.6	40%	Higher EBITDA due to higher sale and decrease in fixed cost
Net Profit Margin	%	7.1	1.5	370%	Higher net profit due to higher sale and decrease in fixed cost
Return on Net worth	%	12.1	2.9	317%	Due to increase in PBT

Operational Excellence, Awards & Recognitions

We follow world class manufacturing systems, as manifested in its vision statement. In this drive, our efforts have been recognized by our esteemed customers, who have continuously appreciated our quality & efforts and supported us from time to time. Customer recognitions are the strongest testimony to a company's excellence. The ECOFAC Plants at Bhiwadi and Manesar are unique & one of its kind. These Plants have been conferred the Platinum category by the Green Building Council.

ECOFAC means a sustainable green manufacturing plant. The Company's Plants have all features of safety, energy & water conservation, & waste management etc.

The Company has successfully installed two roof top Solar Power Plants of 400 KW and 250 KW in Manesar and Bhiwadi manufacturing units respectively as part of its commitment to conserve the environment and reduce the energy cost. as explained above, the Company has put up a solar plant under captive consumption scheme, which is not only green certification but also reducing the cost considerably.

All modern concepts of Lean, TPM and TEI for best utility are being implemented in these Plants from the initial stage. Our efforts have not only been appreciated by the concerned authorities but also by customers and will become a model for future sustainable manufacturing growth.

CRISIL Limited has rated The Hi-Tech Gears Ltd. (HGL) as 'BBB+'. The outlook continues to be stable. It continues to reflect the promoters' established presence in the auto component manufacturing industry and healthy relations with reputed original equipment manufacturers (OEMs). The rating also factors in the company's comfortable financial risk profile

Segment Reporting

The Company is primarily engaged in the business of gears and transmission components, & the inherent nature of both the activities is governed by the same set of risk and returns, & these have been grouped as a single segment in the above disclosures. However, for the purpose of geographical segment, it is divided into three segments and provided in the Financials. The financial treatment is in accordance with the principle provided in the relevant Accounting Standard on Segment Reporting.

Internal Controls & their adequacy

The Company has a properly designed and consistently enforced system of internal control to safeguard the Company's properties, interests and resources, Further, to have better and sustainable control, a new ERP system has been implemented which is showing the desired results.

The same are supplemented by an extensive programme of internal audits, review by management and documented policies, guidelines and procedures. Internal Auditors conduct the Audits and report directly to the Audit Committee and the Board. M/s. Grant Thornton India, LLP a renowned and one of the largest assurance, tax, and advisory firms in India has been working as Internal Auditor of the Company.

The Company has also in place adequate internal financial controls with reference to financial statements. During the year, such controls no reportable material weakness in the design or operation was observed. The Company is committed to strengthen the system in a more stringent manner. Further, the Company has always efficiently used the various components of working capital cycle. It has also effectively controlled the inventories and receivables.

Human Resources

Managing human resources effectively and efficiently plays a critical role in ensuring that a satisfied, motivated work force delivers quality services. It also plays an important role in increasing staff performance and productivity, enhancing an organization's competitive advantage, and contributing directly to organizational goals. Satisfied highly-motivated and loyal employees represent the basis of a competitive company. The growth of satisfaction is to be reflected in the increase of productivity, improvement of the products' quality or rendered services and higher number of innovations. During the period under review cordial relation were maintained at all levels. Detail of number of employees and other material information is provided in Directors' Report.

The Company continues to maintain its track record of peaceful industrial relations ever since its inception. It sustains and fosters its unique paternal culture across all operating locations. Several health and safety initiatives have been introduced as part of a structured program to enhance the safety and health of its workmen and other associates. Performance measurement and skill up gradation programs are widely deployed within the Company.

Disclaimer

This report contains certain statements that the Company believes and may be considered as forward-looking statements. These forward-looking statements may be identified by their use of words like 'plan', 'hope', 'will', 'expect', 'aim' or such similar words or phrases. All such statements are subject to risks and uncertainties which could cause actual results to vary materially from those contemplated by the relevant forward-looking statements