

MANAGEMENT DISCUSSION AND ANALYSIS

PACKAGING SOLUTIONS FOR MULTIPLE SECTORS:

Hitech Corporation is a leading manufacturer of rigid plastic packaging solutions for a variety of customer segments across multiple geographies. These include customers from industries such as paints and coatings, personal care and food to healthcare, agriculture and lubricants. While it operates in a highly competitive space, its emphasis on quality and innovation remains unwavering.

OVERVIEW OF INDIAN ECONOMY:

India, as the rest of the world, has a mixed year in terms of economic outlook. India's growth had been steadily decelerating for several years and the abrupt 68-day national lockdown brought it to a grinding halt. The GDP that contracted by an estimated 24% in the first quarter and as much as 15% in the first half, was the worst since economic data was started to be tracked after independence.

The estimated 8% annual contraction in the GDP growth for the fiscal year ending March 2021, was due to a varying impact on different industries. The sectors under Agriculture, that employ over 40% of the labour in the country, grew 3% and agricultural activity remained largely unaffected. Sectors under Transport, Hospitality and Construction that employ approximately a third of labour, bore the brunt of the aftermath and contracted 10-18%. Lastly, Manufacturing, that employees 12% of the labour, contracted 8%.

Additionally, domestic taxes on petrol and diesel were hiked twice between March and May 2020 causing petrol prices per litre to increase almost 30% in one financial year, despite crude futures being an unprecedented negative value in April 2020. Labour markets are still weak despite an improvement in production levels, given that Labour Force Participation is still at only 40% compared to 46% last year and unemployment is still 7%.

Certain measures like the provision of collateral loans to MSMEs and partial credit guarantees to NBFCs, aided by a healthy rebound in the second half in Construction and Manufacturing may be useful for the economy to inch back to normalcy. Marginal 0.4% GDP growth was recorded in the quarter ending December 2020 owing largely to the festive season. Vaccine rollouts were expected to help the recovery and may end the year at 11% growth. However, partial lockdowns related to the second wave of infections have cast a shadow of gloom around expected GDP growth for the first quarter of the next fiscal.

While there is still uncertainty around epidemiological, vaccination and policy outcomes, the Indian economy is expected to grow approximately 10% in the next fiscal year. Discussions of a presumed current account surplus along with foreign aid in managing the pandemic have buoyed sentiment towards optimism.

BUSINESS SEGMENTS:

Hitech is developing business models to serve expanded sectors and customers all across India. The following are outlook for the industries it serves:

PAINT INDUSTRY:

Three years ago the volumes in the Indian paint industry grew a healthy 12% and continues to be the second largest in the Asia-Pacific region. It is valued at INR 50,000 crore, while a sizable portion of the industry remains unorganized, there is significant room for growth in

the long term. India's per capita consumption of paints is approximately 4 kilograms compared to the global average of 13-15 kilograms. The gradual shift in preference from traditional whitewash to high quality enamels and the rapid development of the rural market bode well for the industry's future. Additionally, highly innovative products like environmental friendly, odour free and dust & water-resistant paints will require a higher level of innovation packaging quality. With its strong research and development calibre, Hitech is well equipped to respond to these elevated demands.

FMCG:

The Indian food and beverage sector, that accounts for approximately 19% of the Indian FMCG industry and specifically the packaged food market is set to double to USD 70 billion by 2025. The rural areas, where penetration is currently low despite rising disposable incomes is expected to be the growth engine for the industry in the short and mid-terms. The proliferation of ecommerce platforms as well as mobile phones have helped create a robust ecosystem and a level of brand awareness where neither existed. The pandemic related lockdowns and fears of not being socially distant, further fuelled the widespread use of online purchases, putting hitherto unreachable products and services firmly in the consumer's grasp. Leading food and beverage brand houses are not only increasing capacity across geographies but also introducing new products that leave the consumer spoilt for choice. Hitech's towering operational stature will allow it to meet the industry's rising packaging standards.

PERSONAL AND HEALTH CARE INDUSTRY:

India has, in the last decade, transformed into a favoured playground for international brands as they compete with incumbent domestic ones. It is no coincidence that the upwardly mobile generation is coming of age in a market that fiercely vies for their attention and share of wallet. The proliferation of social media and access to internet have forced brands to seek a carefully segmented target audience. Influencer marketing dominates sales channels for skin and hair care products and are increasingly calling attention to sustainability and social responsibility. The industry is trying to bridge the chasm from traditionally used skin tone and gender-based campaigns to more inclusive skin care and anti-aging narratives. There is also a push towards personalization and customization tailored to individual needs. These trends will, in no uncertain terms, compel the industry to be nimble and demand the same of its packaging partners. Hitech, with its proven abilities in six sigma as well as just-in-time is a prime choice for the same.

HOME CARE:

In the wake of the global pandemic, home healthcare industry is expected to double from USD 5 billion today to USD 11 billion by 2025. The spread of infection as well as the drive to vaccinate exposed a devastating lack of existing healthcare infrastructure. Combined with growing acceptance from consumers due to faster recovery rates and almost 40% lower costs, the home healthcare industry is expected to drive demand upwards not only for healthcare service and equipment but also household cleaning and sanitizing products. There has been a steady trend away from customary acid and phenyl products to more sophisticated liquid cleaners for kitchen, bathroom and other surface. Growth of over 25% in multipurpose cleaners have overshadowed growth in all other leading cleaning products. Hitech is well prepared as a leading packaging partner, for this unprecedented growth.

AGRO CHEMICAL:

The Indian agro-chemicals industry, having been under pressure from spatial distribution of rainfall and enduring price increase in raw materials for the last few years, is now beginning to recover. New legislation will likely allow the use of over 1,000 agrochemicals, accepted and used across the world, that are currently not cleared for use in India. Combined with cheap labour, scalable infrastructure and low processing cost, manufacturing of agro-chemicals can provide impetus for furthering research into new products to respond to the changes in soil, air and water in farms around the world. The domestic industry is set to double in value to over USD 8 billion in the next few years. Hitech is set up to be not only enterprising but also dexterous in order to resolve the packaging challenges that will come with this expansion.

INDUSTRIAL AND AUTOMOTIVE LUBRICANTS:

The Indian lubricants market was valued, by volume at over 2,000 kilotons in 2020. While pandemic related shutdowns have significantly slowed the industry's growth in the short term, the automotive segment, that is the largest end user market of lubricants in India, is expected to drive better mid and long-term growth. Large international entrants, through licenced partnerships are likely to intensify competition in the annual volume consumption of almost 800 million litres. Combinations of synthetic and mineral oils along with additives for performance will lead to not only innovative products but also packaging needs. Hitech is therefore working to create a stronger foothold in this sector.

CAPS AND CLOSURES:

The global caps and closures market is expected to grow over 5% to be valued at over USD 82 billion by 2026. This is an important sector in the packaging industry since it ensures the preservation and safety of products inside the containers. The products have wide industrial use, from healthcare and cosmetics to food and beverage. The design, development and production of caps and closures can be highly complex, owing to not only the end user customization but also the mixed materials that constitute each product. Hitech has been exploring various sectors for some time but is now confident of its foray into the industry in the near term.

CAPITAL EXPENDITURE & EXPANSION PLANS:

New projects using newer technologies with high volume demands are expected to come online in the fiscal year ending 2022. While the pandemic temporarily prohibited large expenditures last year, capital and expansion plans for the upcoming projects will be resumed aptly. As always, low-cost efficiency improvement projects at various plants are underway as planned. These include the systematic replacement of older machines with newer technology as well as the augmentation of existing plant and machinery to support newer products and customers.

OPPORTUNITIES, RISKS AND THREATS:

Hitech's simple three-fold strategy to expand current products in new customer segments, develop new products for existing customer segments and create new products for new customer segments has served it well. Having 10 manufacturing facilities across the country has allowed it to take direct advantage of opportunities in varied customer segments and geographies. With the new Mysore and Vizag facilities, we now have a much larger presence in the strategic south India market. Our significant knowledge base in mould design and development allows us to not only diversify our tool room capabilities

beyond plastic to die-casting and sheet metal tools but also facilitate and work on high-speed equipment.

General economic slowdowns, that impacts Hitech's customer segments, as well as fluctuating polymer prices pose the most direct risks to Hitech. Hitech continuously works to minimize its expenditures to mitigate risks from economic deceleration. It has consolidated its facilities within two major regions to increase synergies and combine efficiencies. It works with its customers to contractually pass on the effects of polymer prices in order to minimize adverse effects on operating profits. Finally, it seeks to expand not only its customer base but also its product lines.

Structural changes in monetary policy and industrial regulations have an indirect impact on Hitech as customers pursue short- and long-term changes to their strategies to cope with the same. Increased crude oil prices have direct effects on profitability. Hitech works closely with its customers to stay ahead of the effects of such changes. It also restricts imports and covers foreign exchange rates to minimize any adverse financial implications it may have.

HUMAN RESOURCES & INDUSTRIAL RELATIONS:

Hitech continues to attract and retain necessary talent at all its facilities. Its commitment to the holistic development of its employees extends not only to engaging and developing them on a professional level but also encouraging personal development. These are through meditation, interactive workshops, multi faith prayers every morning and great emphasis on preventive healthcare through yoga.

ENVIRONMENT, HEALTH AND SAFETY ("EHS"):

Hitech's EHS policy requires compliance to statutory EHS requirements as the minimum performance standard. It is committed to adopt stricter standards, wherever possible. Health and safety of employees is always given priority. Hitech arranges employee training programs that enable workers to perform as per prescribed procedures designed to meet all EHS requirements.

INFORMATION TECHNOLOGY:

The Company is increasing its focus on digitisation and automation. During the year, Hitech has worked on creating a dashboard for simplifying the operational controls and management at all its plants. This facilitates transparency of data and results in higher operating efficiencies.

RESEARCH & DEVELOPMENT:

Hitech's Research and Development Centre, accredited by the Department of Scientific and Industrial Research (DSIR) of the Government of India is situated at Sanaswadi. The new facility is large enough to support the firms' ambitions to invest in better machining technology as well as proximate enough to facilitate faster trial and testing time. Mould design and development remains at the forefront of Hitech's technological enterprise, but other innovations, ranging from low cost automation to process improvement complement its holistic approach towards providing customer delight.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Hitech has an adequate internal control mechanism based on an integrated cloud-based ERP system and has aligned its current system of internal financial control with the requirement of Companies Act, 2013. This system is commensurate with the nature of Hitech's business in addition to the size and complexity of its operations. The

management assessed the effectiveness of the Company's internal control over financial reporting and the Statutory Auditors of the Company have issued an attestation report on the internal control over financial reporting as required under section 143 of the Companies Act, 2013. The Audit Committee appoints internal auditors to audit and submit a summary of the internal audit report periodically. The Committee then discusses and reviews the findings with the internal auditors, statutory auditors as well as with senior management, including functional heads. Significant findings, along with management response and status of action plans, are also periodically shared with and reviewed by the Audit Committee. Evaluation of risk management system and process reviews are being further improved to increase profitability, efficiency and operational excellence.

FINANCIAL PERFORMANCE:

Our financial results and performance for the year are elaborated in the Directors' Report.

In accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, key changes in financial indicators alongwith Key Financial Ratios are given below:

During the financial year 2020-21:

- Operating revenue decreased to ₹ 44,708.36 lakhs, as against ₹ 46,008.71 lakhs in the previous year,
- EBIDT increased to ₹ 6,553.54 lakhs as against ₹ 6,033.81 lakhs in the previous year.
- Exceptional Item (charge)/credit includes profit on sale of land and building of plants situated at Dadra and Sarigam which were vacant and the operations had been shifted to other plants in earlier years. The profit on sale of property being a non-recurring event has been considered as an exceptional item. (Previous year figures represents one time employee separation cost for closure of Sarigam unit and loss due to floods at Baddi plant pending clearance of the insurance claim).
- Net Profit after tax increased to ₹ 1,695.90 lakhs as against ₹ 235.93 lakhs in the previous year

Ratios	FY 2020-21	FY 2019-20
Debtors Turnover Ratio*	10.23	9.27
Inventory Turnover Ratio (on Cost of Goods Sold)	7.22	7.35
Interest Coverage Ratio	3.39	2.56
Current Ratio	0.88	0.77
Debt Equity ratio**	0.72	0.83
Operating Margin Ratio	9.32%	5.90%
Net Profit Margin	3.75%	0.60%
Return on Net Worth (RONW)	9.20%	1.67%

* Debtors Turnover Ratio increased due to improvement in debtors' collection

** Equity includes Reserves and Preference Shares

FORWARD LOOKING STATEMENTS:

This report contains forward looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about Hitech's strategy for growth, product development, market position, expenditures and financial results are forward looking statements. Forward looking statements are based on certain assumptions and expectations of future events. Hitech cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements. It assumes no responsibility to publicly amend, modify or revise any forward-looking statements based on any subsequent developments, information or events.