Management Discussion and Analysis

1. Industry Structure, Development and Product Wise Performance

Your Company is part of a vast and complex industry comprising of various diversified segments, the major ones being building Offshore Drilling Rigs, Fabrication of Offshore structures, building ship,like, cargo vessels, container Vessels , cruise liners, Offshore vessels, passenger support vessels apart from building Defence Equipments and platform earth moving machines like non-propellant dredgers for sand and mining. Recently, a new segment has evolved due to growing environmental regulations, being the LNG propelled vessels which basically use the unconventional source of LNG as a fuel. The important segments are outlined herein below:

i. Defence Industry

With the Ministry of Defence's emphasis on indigenization, Public sector shipyards are facing severe capacity constraints, enabling private shipyards an opportunity to participate in the defence segment via JVs etc.

Indian Navy has ambitious plan to modernize and expand its capacity to keep the dipping operation efficiency / numbers at desirable level. Currently the Navy has barely half of the submarines, destroyers and frigates it needs. Hence it has become imperative for the Government to involve the private sector shipyard to meet its requirements. In the current Defence/Navy Platform, 40% of the Platform which are about 20 years old, another 42% of the platformsthat are 10-20 years old. The prescribed or design life of most of the naval Platforms is 25 to 30 years. However, since 46% of the Platforms are above 20 years, there is an urgent need for the Navy to replace and modernize.

Further In May 2015 the Indian Ministry of Defence/Navy directed that all future requirements of Platforms and submarine building are to be given only to domestic companies operating in the Industry. As part of the Make in India policy, the Government is also encouraging the Industry abroad to collaborate with domestic industry and build it in India. This also opens up a huge potential for the Indian Industry to enhance their capabilities as well as to grow their business manifold.

Company's Strategy:

Government of India has granted a License to the Company for manufacture of Warships, Frigates, Submarines and Patrol Boats etc. and such License has been issued for all these items/ products falling under the heading 37 of the First Schedule to the IDRA, 1951. The Company intends to make the most out of this opportunity. The capital requirements of the Navy are too large to be catered alone by the public sector shipyards. The focus is shifting towards actively involving even the private shipyards which have the necessary manpower and state of the art infrastructure in place and more importantly, the desire to explore the untapped sector of Defence. As said earlier, following the basic portfolio management principles, the Company has been diversifying its client base.

ii. Rigs

India's offshore oil production contribution is estimated to grow about 40%, driven by contribution from deepwater driving demand for jack up rigs and offshore supply vessels. Of the existing jack-up rigs, more than half are over 20 years old. In the past few years, many rigs have been scrapped which are as many as were scrapped/converted in the past one and a half decade. Higher E&P activity, scrapping of old rigs and suppressed demand is expected to drive the demand for jack-up rigs. The scrapping of old units will happen because they are too expensive to reactivate, too expensive to maintain, or simply too old and out-dated to be employed by the oil companies, especially the major oil companies who are worried about the cost of environmental damage which is bigger risk with older equipments.

Company's Strategy

The Company has delivered India's first Cantilevered Independent leg, Jack up drill Rig. There are only 9 Rig manufacturers in the world which have the technical know-how and potential of manufacturing such types of rigs. Your Company is 10th in the World and 1st **in India**. The Company's next step would be to foray into the drill ship market. Where the demand currently is subdued on account of pressure onOil prices.

iii. ***Offshore Segment***

The demand for offshore vessels is positively correlated with the quantum of Offshore E&P activities. Lately, significant oil discoveries on land are becoming less common. Therefore, global exploration trend is trending towards offshore oil fields and away from onshore fields. The growing demand for oil coupled with the increasing focus on offshore reserves and age related policies for the vessels outlined by the Hirers for safety and efficiency has acted as a key factor for demand of new-build offshore vessels. With ageing fleets globally, replacement demand for AHTS and PSV is likely to remain robust. With environment protection regulations becoming increasingly stringent, vessels over 20 years old are generally considered obsolete. Between 2003 and 2008 the industry ordered over $800 billion of new ships. 50% of the orders were placed in 2007/8 when prices were at a peak. In India itself, the shipbuilding and repair market is poised to pick up momentum with the increasing penetration of Indian shipbuilding companies in the offshore vessels (OSVs) segment. Indian companies have established strong credentials in the building and repair of OSV, resulting in a spike in orders for such vessels from the Indian industry. The limited capacities related to OSVs in leading shipbuilding nations such as Japan and South Korea are resulting in diversion of orders to India, driving up the fortunes of the Indian shipbuilding and repair market.

Company's Strategy

The Company has always been one of the leading private sector shipbuilding Company in India catering mainly to offshore segment. It has always strived towards a diversified client base globally. Presently, the order book of the Company is dominated by offshore segment. It has always strived towards and succeeded in providing to its Client excellent quality vessels, the operations of which have earned lucrative profits to the Customers. It has taken up the challenge of being one of the first few to construct the high end complex vessels types like MSVs and PSVs. Its passion for the business and the consistent focus on quality improvisation has been one of its USPs and has attracted repeated orders.

iv. **LNG-Propelled Vessels**

The concept of using LNG as a fuel for ships has been gaining popularity not only in Europe but also in Asia and USA. The focus is being shifted to unconventional sources of energy like LNG which are yet to be explored fully and which are emitting less of the sulphur oxide, a pollutant said to cause acid rain. LNG propelled vessels are especially required throughout the "Emission Control Areas" (ECAs) in North-West Europe. Vessel emissions in ECAs will have to be reduced further in the near future, forcing ship owners to limit their sulphur emissions drastically. Under rules from the International Maritime Organization, these emissions are required to be reduced to 0.5 percent by 2020 globally from 4.5 percent presently. In particular compared to conventional heavy fuel oil, LNG offers close to 100 per cent reduction of emissions in sulphur and particulate matter, an 80-85 per cent reduction of nitrogen oxides (NOx) and 20-25 per cent less CO2 emissions.

Company's Strategy

Bharati Shipyard has already made a foray into this market and is one of the **world's first ship manufacturers** to do so. It had entered into a contract for construction and sale of 2 LNG propelled vessels to a Company based in Norway which presently has been cancelled. However, your Company is confident that once these vessels are ready either we can sell it to original buyers or can be easily sold to third parties. Norway has taken the lead developing "LNG as fuel" concept for shipping. It has already taken a leading position in the use of LNG as a fuel, such as on ferries and supply ships.

2. **Outlook**

Global shipbuilding industry has been going through a downturn since 2009. The downturn has been more severe in the commercial shipbuilding industry where fixed asset investments and growth in global trade drives demand.

Strength in selective segments such as LNG should, however, continue to support order flows. Sustained recovery may take little longer.

As you are all aware that the Company has been forced to exit the CDR process. The Company have been making its best endeavours to revive out of this temporary adverse phase. Further, during the year the main focus of the Company has been on getting finance for completing the orders on hand. Speedy completion and delivery of existing orders will help the company to cope up with a liquidity mismatch and focus on capturing new orders will give company future outlook to excel. The Company is committed to deliver quality products by meeting global standards in terms of capabilities, technology and size. The Company is also equipped with modern technology and heavy engineering facilities to undertake projects for the Defence as well as production like Rig and LNG vessels. The Company is a proud owner of its Dabhol Yard and Mangalore Yard with state of the art facilities including floating dry dock. With this infrastructure and experience, the Company has an edge over existing players in the industry. The Company is expecting its order book to grow on account of defence demand for rigs and ship repairs activity, subject to finding the necessary funding repairs activity.

3. Opportunities

The global downturn in the Shipping and Shipbuilding industry and the recession in Europe has made all the Shipyards relook and improvise the business strategies and operational methods making them more cost effective and innovative. They are exploring the market for untapped client base as well as resources. The positive results of such actions will be an add-on incentive once the market has revived.

i. Growing requirements of the market:

With the global offshore activities inclined towards exploration in deeper waters, the demand is rising for technologically new and improvised Rigs and Offshore Support Vessels capable of undertaking such activities.

Government Initiatives and Policies:

Government of India - Ministry of Shipping has also taken some important and major steps for the revival of shipbuilding, ship-repair business of the India. Some of the few of these incentives are:

- **(i)** ***Financial Assistance equal to 20%*** to Indian Shipyards for next 10 years of each vessel built by them starting from FY 2015-16.
- **(ii)** ***Exemptions of Customs and Central Excise Duty*** on inputs used in shipbuilding
- **(iii)** ***Infrastructure Status to Shipbuilding Industry*** to help shipyards in flexible restructuring of long term projects, long term funding, relaxed ECB borrowings norms, benefits under Income Tax Act 1961 etc.
- **(iv)** Government of India permits ***100% FDI in Shipbuilding***
- **(v)** ***Right to First Refusal (RoFR)*** on all vessel procurements by Government Departments and agencies

The Indian Navy has an ambitious plan to modernize and expanding its fleet. The Government of India has also recently given a directive that all the ships required by Indian Navy has to be built in India. To meet the requirement of Navy, the Government of India has approved Acceptance of Necessity for procuring 61 warships in the near future. This means a multi-billion business opportunity for the shipyards in India. Further, Government of India has also directed the Defence Public Sector Unit (DPSU) engaged in ship building exclusively for Indian Navy, to outsource activities to private shipyards.

The Government of India has also announced Indian Naval Indigenization Plan (INIP) which aims at indigenizing many of the components that are currently imported. This give a huge opportunity to Indian shipyards to collaborate with partners abroad for manufacturing these components in India for the Defence requirements.

The Government of India has announced a programme called SAGAR MALA for boosting Coastal shipping in India. With the development of Coastal Shipping there will be a large demand for medium size ships as presently there are very few ships doing coastal duty which are designed primarily for the medium depth that would be available in these Ports.

The Government of India has also declared 5 major rivers as National Waterways(NW) and targeting to develop Inland waterways transportation for men and material. Over a period, 106 rivers will also be developed as national waterways. This also gives a huge opportunity to the Indian shipyards to build ships which are designed specifically for various such waterways. For developing and maintaining of these waterways, as well as depth of water in the various Coastal Ports there will be huge requirements of dredgers and hence the opportunities for dredge manufacturers are also looking very bright.

4. **Risks and concerns.**

i. **Risk related to the Ship Building Industry**:
As a company having a global customer base, we are subject to the industry's business cycles, the timing, duration and volatility of which are difficult to predict. The ship building industry has historically been cyclical. However, our revenues from areas apart from shipbuilding depends upon the level of capital expenditures by Exploration and Production (E&P) players. These capital expenditures depend upon a range of competitive and market factors, including:

- the current and anticipated market demand for oil;
- production costs;
- changes in vessel inventory levels;
- general economic conditions; and
- access to capital.

Reductions or delays in capital expenditure by our customers in the E&P sector could have a material adverse effect on our business, financial condition and results of operations.

ii. **Subsidy Support:**
The Government of India had come up with a financial assistance subsidy scheme for Indian Shipbuilding Industry for all orders received after April 2016 subject to certain conditions. Subsidies are provided as relief from all taxes paid by the Indian shipbuilders as they face a cost disadvantage vis- a-vis other shipbuilding nations.Since, the new subsidy is introduced, it will be easier for Indian Shipbuilding Industry to survive in Global Shipbuilding Market.

iii. **Vulnerability due to certain concentrations:**
The Company relies on outside vendors to supply the components and subassemblies used for vessel construction, each of which is obtained from a sole supplier or a limited number of suppliers. This involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing and timely delivery of these equipments and components.

iv. **Foreign Exchange Risk:**
The Company has been export oriented since long and the contracts entered into by the Company with its Customers are also in foreign currencies. Similarly, a significant costs and expenses of the Company are in foreign currency. Accordingly fluctuations in exchange rates may affect the company's Net earnings and outgo only marginally. The mix of revenues and expenses both in foreign currencies provide a natural hedge to the Company to the extent the same are proportionate.

v. **Under-developed ancillary industries:**
The shipbuilding sector in China and South Korea has received government fiscal and policy support, enabling them to develop scale as well as a cluster of ancillaries. These advantages of scale are not available to Indian shipbuilding industry, which imports most of its input materials and is therefore unable to leverage advantages offered by bulk purchases and Just in Time supplies. As a result there are significant cost disadvantages on account of import dependence.

vi. **Stagnant orders inflows:**
Due to global economic downturn the shipbuilding industry as whole has been affected by lesser number of incremental orders. This could also affect the growth prospects of the company. However, Indian shipbuilding has an edge because of increase in Defence orders.

vii. **Risks related to the Company**

- Financial stress - Liquidity issues.
- Low level of performance in last few years due to financial stress
- Need to rebuild part of organisation on account of attrition.
- Possible initial reluctance by clients for placing fresh orders.

- Current liabilities and contingent liabilities.
- Accumulated losses
- High interest costs
- Machinery and equipments purchased some time back to be reconditioned

5. Internal control systems and their adequacy

The company has designed its internal control system specially and specifically to ensure reasonable assurance so as to provide reliable financial and operational information. The Internal Control System ensures the safeguarding of the assets from unauthorized use or losses, applicable statues, corporate policies, and also ensuring that the transactions are executed with proper authorization. The company takes special care to place adequate internal control procedures commensurate with its nature of operations and size.

6. Financial Overview – Will change according to Notes to Accounts and Financial Statements.

i. Turnover

During the year, the Company has achieved turnoverof Rs. 4,705.17 Lakh in comparison to the previous year of Rs.2,912.29 Lakh. The decrease overall turnover as compared to turnover achieved in past is attributable to inadequate working capital to support the essential level of operation.

ii. Subsidy

Due to revised Incentive scheme issued by Government of India the Company has revised its estimates of Subsidy Receivable from Ministry of Shipping - Government of India, which has resulted into reversal of Subsidy worth of Rs.22,554.66 Lakh. This reversal of subsidy receivable has been disclosed as extra ordinary item under Statement for Profit and Loss and explanation has been provided vide Note no. 32 to Financial Statements.

iii. Expenditure

a. Raw Material Consumed

The Raw Material consumed has marginally increased from Rs.4,237.00 Lakhs during previous year to Rs. 6,867.46 Lakhs during current year.However, overall consumption of raw material has declined due reasons explained above. Raw Material cost as a percentage of sales is subject change on year on year basis due to types of vessels under construction during the year.

b. Manufacturing and Other Expenses

The Manufacturing and Other expenses have marginally increased from Rs.6,902.43Lakhs during previous year to Rs. 6,348.09 Lakhs during current year. The manufacturing and other expenses mainly consists of Design & Consultancy Fees, Equipment Hire Charges, Launching/Survey/Testing Charges, Clearing & Forwarding Expense, Transportation Charges, Commission & Brokerage etc.

c. Employee Cost

During the year there no major change in Employee Cost. Total employee cost incurred during the year is Rs.4,337.93 Lakhs in comparison to Rs.4,323.11 Lakhs during the last year. This is mainly due to no major change in turnover and slow down on level of activity at various yards due to financial crisis.

d. Bank & Finance Charges

Bank & Finance Charges have increased to Rs.31,941.01 Lakhs during current year, from Rs. 29,656.46 Lakhs in previous year. Further, during the year the Company has also booked Interest and Foreign Exchange Variation on Invoked Bank Guarantee (Refer Note No 41) of Rs.73,435.09 under Exceptional Items. The Company has also accounted for difference in Book Debts vis a vis Debt Position confirmed by Secured Lender to the tune of Rs. 29,170.46 Lakh and debited Profit and Loss under Exceptional Items (Refer Note.44(c) for explanation).The Bank and Finance Charges comprise of interest on various term loans, Working Capital Facilities, Bank Guarantee Charges and L/C Charges as well as financial impact of foreign currency transactions & translation. Increase in

Interest cost was on account of interest rates charged by the Banks pursuant to implementation of the Corporate Debt Restructuring.

e. Depreciation

Depreciation has increased from Rs. 4,684.43 Lakhs in last year to Rs. 4,939.92 Lakhs in current year. The increase in depreciation is mainly due to increased utilization and commissioning of Plant & Machinery of Greenfield yards in the year under consideration.

f. Exceptional Items

- During the year the Company has provided for loss on account of independent valuation of Work in Progress (value of vessels under construction) of Rs. 64,174.54 Lakh. Please refer note 44 (a) for further explanation.
- During the year the Company has provided for impairment loss on account of independent valuation of Fixed assets and Capital Work in Progressof Rs. 6,397.39 Lakh.Please refer note 44 (d) for further explanation.
- During the year the Company has written off Trade receivables worth of Rs. Rs.5,930.66 as bad debts.
- During the year the Company has also provided for Investment made in Tebma Shipyards Ltd through its 100% subsidiary and Investment in Joint venture. Please refer note 34 for further explanation.

iv. Profits/ Losses

The net loss for the year is Rs. 1,89,799.01 Lakhs as compared to Rs. 86,458.23 Lakhs in the previous year. The Company has incurred losses due to exceptional items covered before and due to reduction in level of operation during the current period.

v. Long Term and Short Term Borrowings:

Total Borrowings of the Company has increased from Rs. 6,20,517.09 at the end of previous year to Rs. 8,49,396.22 at the end of current year. The increase in debt is on account of i) Provision of Interest, ii) Accounting of Invoked Bank Guarantees which were non fund based limits which got converted into fund based debt and iii) Reconciliation of Debt with Secured Lenders.

vi. Fixed Assets and Capital Work in Progress

Total Net Fixed Assets and Capital work in Progress have decreased from Rs.23,456.17 Lakhs to Rs. 16,982.49 Lakhs due to provision of impairment loss based on independent valuation.

vii. Long Term Loans & Advances

Long Term Loans & advances have decreased from Rs. 1,03,846.39 Lakhs to Rs.96,813.66 Lakhs for the year under consideration. The above reduction is on account of provision of impairment on Joint Venture and others. For the year under report, these comprise of advances given to subsidiaries/associates.

viii. Inventories

As on 31st March 2016, the company has inventories of Rs. 2,98,979.57 Lakhs in comparison to Rs. 3,67,161.58 Lakhs as on 31st March, 2015. The decrease in inventory is mainly due to the decrease in Net Work in Progress on account independent valuation.

ix. Trade Receivables (Other Non-Current Assets)

Trade receivables mainly comprise of Subsidy receivables from Government of India which is disclosed under head "Long Term Receivables - Other Non-Current Assets". The said receivables of the Company have been decreased due to Provision of doubtful debt of Rs.22,872.74 Lakhs.

7. Material developments in Human Resources / Industrial Relations front, including number of people employed

The Company has laid down HR Policies for its employees. The association between the management and employees is very convivial. The Company believes in Good health, safety and welfare of its employees. The Company has been implementing various HR initiatives to enhance the effectiveness of its employees.

CAUTIONARY STATEMENT

Statements in the Management Discussions and Analysis describing the Company's objectives, projections, estimates, expectations may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include among others, economic conditions affecting demand/supply and price conditions in domestic and overseas markets in which the Company operates, changes in the Government regulations , tax laws and other statutes and incidental factors.

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For and on behalf of the Board

P..C.Kapoor	**Vijay Kumar**
Managing Director	**Managing Director**
Place: Mumbai	**Date: 30th May,2016**