MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

A) INTRODUCTION

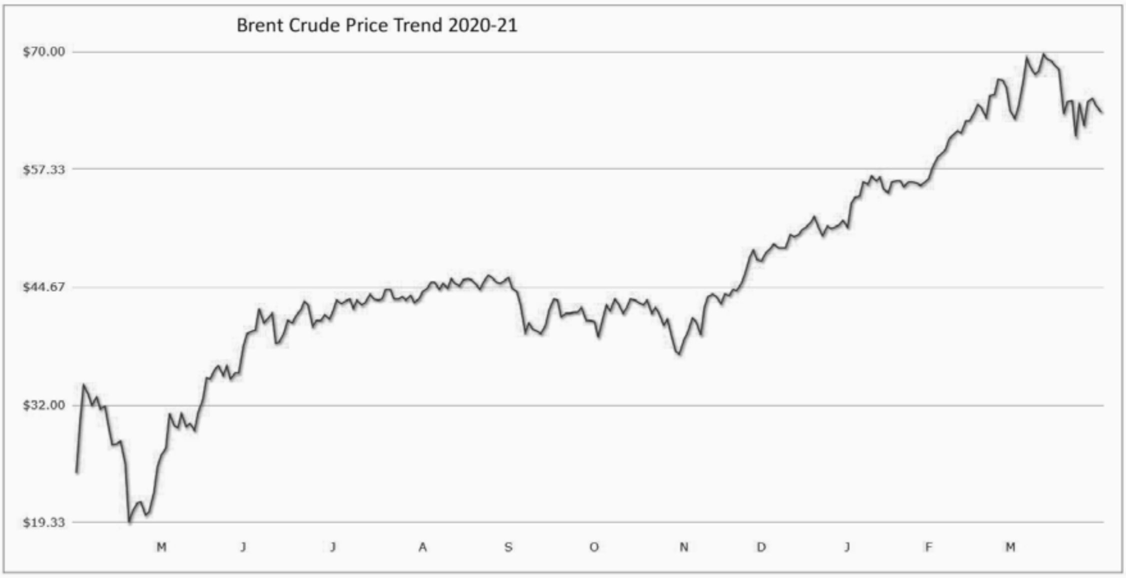
This report addresses the Management views and perceptions of the business considering the current scenario based on the market environment and possible growth opportunities with the visible and imminent headwinds and challenges while analyzing the performance for the year under review. The report also presents the summary of control and counter measures being initiated and also the Development of Human resources. The report should be read in conjunction with the Director's report to the shareholders, the Financial reports and other notes provided as a part of the annual report.

B) ECONOMIC SCENARIO

This year's economic situation was dominated by the Covid-19 pandemic almost for most of the year. The year started with the entire country locked down fully in Apr'20. In May'21 the industries started reviving with prior permissions granted for the essential items.

The exchange rate which went up beyond ₹ 76 / US$ during the lockdown maintained at that range for the first two quarters. The INR hardened and maintained at around ₹ 73 / INR for most part of Q4. This was a relief to an extent for the importers who had gone through higher cost of imports in the first two quarters.

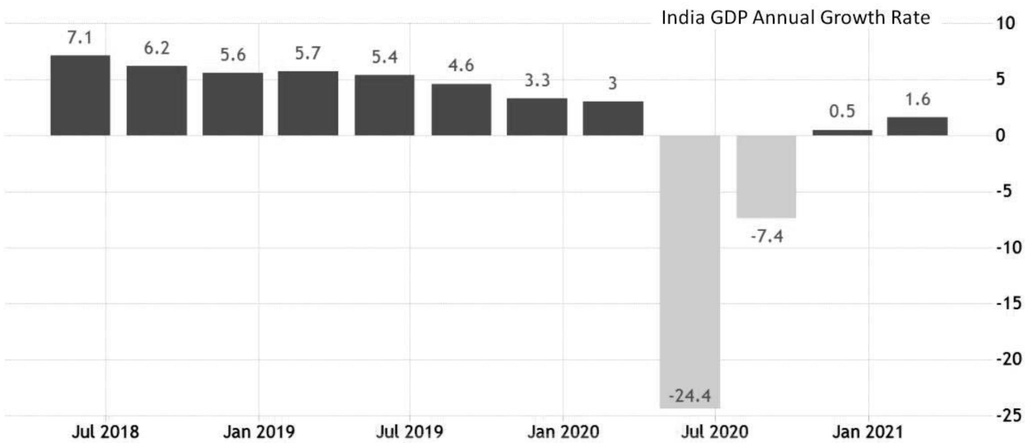
The crude prices dropped to all time low in the aftermath of the lockdown but gained back slowly to tread on a flat path till Nov'20. The gain in oil prices since Dec'20 gave rise to unprecedented run in the prices of petrochemical based output, especially the polymers, both commodity as well as specialty polymers causing concern for the end users and the industry alike.



The Covid induced lockdown was a dampener to Indian economy which had wriggled out of the demonetization and GST implementation related blues in the previous years.

The Indian economy expanded 1.6% year-on-year in Q4 2020-21, accelerating from an upwardly revised 0.5% growth in Q3 2020-21 and beating market forecasts of 1%. It was the 2nd straight quarter of growth since the country exit a pandemic-induced recession during the year.

The government also revised its GDP estimates for the first two quarters. According to the latest data, the GDP contracted by 7.3 per cent in Q2 2020-21 instead of the previous estimate of -7.5 per cent and by a sharp 24.4 per cent in Q1 2020-21 instead of the earlier reported -23.9 percent. The Q1 contraction is the worst in the history of the Indian economy.



SOURCE: TRADINGECONOMICS.COM | MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSPI)

In order to support the industry, Government of India announced a slew of measures that include among others, relief to improve the liquidity, relief to MSMEs in the form of collateral free loans, equity infusion, revised investment limits to be qualified as MSME, and steps for MSMEs to get paid within 45 days, relief to NBFCs, power generating firms, real estates & EPC/ contractors and significant changes for the corporate affairs Production Linked Incentive (PLI) scheme worth up to ₹ 1.46 lakh crore for 10 key sectors in a bid to boost India's manufacturing capabilities and enhancing exports, Incentives for the sectors such as white goods manufacturing, pharmaceutical, specialized steel, automobiles, telecom, textile, food products, solar photovoltaic and cell battery and a ₹ 3,000 Cr boost for project exports through lines of credit under the Indian Development and Economic Assistance Scheme. All these are really what the industry needed in order to get a quick recovery from the pandemic.

C) INDUSTRY STRUCTURE AND DEVELOPMENTS

During the year under review, the lockdown brought in a halt / squeeze on people spending on things other than essential. The receding infections in Q3, brought in cheers during the festive season and almost all the sectors tried to catch up with recovered demand. The country witnessed manufacturing sector trying revive as quick as possible.

The manufacturing PMI came down to 27.4 in Apr'20, the lowest ever since PMI data collation started 15 years back. It improved marginally in May'20 to 30.8. The big boost during the festival season saw India PMI jumping to the highest ever level of 58.9 in Oct'20.

The year in discussion was bad for the automobile industry in that there was a degrowth in sales of all segments compared to the previous years.

The overall production came down by 14.04% compared to the previous year. Considering the drop of 14.75% in the previous year, the drop over the last two years is significant. This has halted the growth curve seen in the past several years in the Indian automotive industry. The production volume went back to the levels that were seen prior to 2014-15.

AUTOMOTIVE INDUSTRY IN INDIA PRODUCTION TREND

Category	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Passenger Vehicles	3,465,045	3,801,670	4,020,267	4,028,471	3,424,564	3,062,221
Commercial Vehicles	786,692	810,253	895,448	1,112,405	756,725	624,939
Three Wheelers	934,104	783,721	1,022,181	1,268,833	1,132,982	611,171
Two Wheelers	18,830,227	19,933,739	23,154,838	24,499,777	21,032,927	18,349,941
Quadricycle	531	1,584	1,713	5,388	6,095	3,836
Grand Total	**24,016,599**	**25,330,967**	**29,094,447**	**30,914,874**	**26,353,293**	**22,652,108**

Source: Siam.in

The auto sector is cyclical. The cyclicality varies from segment to segment. The commercial vehicle sales are linked to overall economic growth while that of tractors are linked the monsoon. Compared to these segments the passenger vehicles and two wheelers are less cyclical. A mix of factors such as rise in the cost of vehicles due to changes in emission and regulatory norms, higher lending rates and muffled disposable incomes led to a negligible sales growth over the last 5 years. To add to this misery, Covid hurt the economy.

The consolation is that the decision to buy a vehicle will just get postponed to the coming months as the recovery takes place. It is unlike the lost sale for consumables which cannot be made up.

D) COMPANY PERFORMANCE

As mentioned above with the Covid induced lock down affecting the manufacturing in every segment, the performance of the support industries feeding to the manufacturers were also hit badly.

Your company is no exception to the trend witnessed in the manufacturing sector.

1) Operations

Our company has always been ahead of the growth curve that keeps us at the frontline. Our new green field manufacturing facility at Chakan near Pune which was commissioned in the previous year, continued to be strengthened with addition of capacity with new compounding lines added. In spite of the lock down, your company could obtain permission from the respective local authorities to run the compounding lines in order to feed the medical industry with essential high flow PP resin that go into the manufacture of Melt Blown PP which has the capacity to filter virus and forms essential part of the disposable Masks.

During the lockdown period, your company was busy in preparing the project report for commissioning manufacture of disposable masks and moved the government authorities for necessary permissions and approvals. With untiring effort, your company was successful in commissioning the manufacturing lines for masks in Jul'2020. The plant was commissioned with facility to manufacture, 3 Ply masks, 3 Ply masks with head band, Foldable masks with Ear loop as well as Head loop. Necessary certifications like BIS (IS 9473:2002) for India and CE (EN149:2001) for Europe were obtained within a short period to assure confidence to the users on the quality of masks manufactured by your company.

The timely commissioning of mask manufacturing helped your company to supply Masks to the hospital industry including Government agencies in this hour of need.

Raw material prices which slipped to very low level in the first two quarters started rising and hit the peak during Q4'21. This created an anomaly in the cash flow as the selling prices remained low as per lagging price mechanism that industries follow while the input cost went up. The relationship that your company maintained with key OEMs helped get some quick relief to sustain our operations and to manage this situation.

We continue to take support of our principals in creating multiple and alternate options to have a greater control on key RM prices. Inventory management both at RM and FG level continue to remain a big challenge demanding our full focus due to the fact that the stock levels built up based on prior ordering while the lockdown delayed consumption of the same. The delayed clearance from ports with the additional detention costs due to lock down added to the cost of imported RM.

2) **Marketing Initiatives**

As you are aware, your company has a sales and marketing team which is ever mobile and ready to pluck any opportunities that flies past. The travel restrictions imposed due to Covid delayed free movement and the restrictions in the user industry to meet visitors reduced the face-to-face interactions. Your company's sales and marketing team kept itself busy during the lock down pursuing leads in the PPE industry especially Masks so that your company can take advantage of the opportunities when the lockdown lifts.

Last year, just before the Covid induced lock down was imposed, your company had perfected development of the Melt Blown PP resin for making the Melt blown fabric used in the Masks. Your company successfully found users for the high flow PP resin for melt blown fabric/film manufacturing and made sale to both domestic and overseas customers. As melt blown film technology is relatively a new area for the industry, your company organized technical lectures on line and invited the industry people to make use of the same. Necessary support was taken from the HQ for the flow of technical information.

Similarly your company organized webinars through industry associations like Indian Plastics Institute to keep in touch with existing and potential customers during the lock down and utilized the same for educating the customers. This helped continue the engagement with our customers when the opportunity for direct interactions were limited by the lock down.

The technical and marketing team together successfully identified opportunities for Engineering Plastics in both Auto and Non-Auto sectors and made entries when the industries opened up. Such new initiatives have created opportunities for making Kingfa a dominant player in the Engineering Plastics space as well.

During the year, your company successfully deployed the approvals that Kingfa has in China for Engineering Plastics to India OEMs that will help in utilizing the new capacity created at our Chakan plant.

3) **Human Resources & Industrial Relations**

The travel restrictions imposed due to Covid had the power to dampen the spirits of any team, but our team kept itself busy during the lock down.

The team was kept engaged through daily online interactions and was encouraged to pursue learning new skills and topics which will help in their job as well as personality development.

Lat year we mentioned that we have embarked on a program to relocate our front-end team at overseas locations to give them exposure to overseas markets. During the year, in spite of the lock down restrictions, we have successfully relocated our persons in South Africa and Thailand.

To reiterate, the experience that the team gains in getting new business abroad is immense for the future of the company. This helps us in seamlessly engaging with transnationals who are setting up manufacturing in India. Your company will benefit from this greatly when they commence operations in India in the near future.

The permanent employees on the rolls of the company stood at 219 as of 31st March 2021.

4) **Business Opportunity**

The Company's key focus and objective continues to be growth much above the market trend by aggressively pursuing all opportunities while continuously investing in people, technology and capacity ahead of the demand curve. We are supremely confident that this objective would put us in the right place to fully capitalize and upswing in manufacturing growth in India.

Our construction of Global Scale Manufacturing and Contemporary Design and Development Center at Chakan, Pune was supposed to be completed in full during the year was delayed due to Covid and expected to be completed in the coming year in full. This facility has latest facilities for new product development and would enable your company to develop material and formulations within a short period. The new lab that is being set up at Chakan has plans to have NABL accreditation that will enhance the reliance on Kingfa's test results by the customers and OEMs alike.

Relocation of our marketing personnel at South Africa and Thailand has started yielding results with the teams finalizing deals for commercial supplies. We are pleased to inform that the first large scale commercial supplies to South Africa left our shores in Dec'20 and continues.

We have earlier shared information about new auto companies setting shops in India. Your company made sure that Kingfa products are used for the new vehicles from day one having successfully completed the technical requirements and commercials.

Your company has been active now to take approval for India made products in Engineering Plastics domains with MNC companies operating in India, in both auto and non-auto space. Virtual audits are taking place to complete plant approvals for the same, not waiting for people movement to have on-site audits. This will facilitate production of Engineering plastics like PA6, PA66, BPT, ABS, PC and others in full product ranges to be produced at our Chakan plant.

E) **RISKS AND CONCERNS AND THREATS**

The exposure of the Company to various types of risks is detailed below along with the strategy employed to manage / mitigate the same.

Business risks

Business Risks are permanent and cyclical with lot of factors contributing to the same and also the ability of the customers to expand and spend. We are sensitive to the same and are focussing our efforts across Industry segments and also expanding our product basket. By continuously engaging with wide spectrum of Industry we feel that we will be able to significantly mitigate if any one segment runs into rough patch.

Financial Risks

Financial risks are real and permanent and usual part of business and the company always views the same seriously and continuously. Inventory and receivables are continuously reviewed and working capital is managed tightly and ensure optimal cash flow. We apply the lean principle in both while being adaptive to the market swings to get the best benefit out of the customers demand swing. With SAP, we are able to review these real time and make effective business decisions.

As our key inputs are derivatives of Petroleum price variations and volatility are normal and secondly not in our control. Multiple options and sources and robust planning and analysis helps us mitigate the over all risk.

We have effectively used resources from our HQ to mitigate interest cost risk. However we continue our focus on receivables and creditors management to reduce risk.

Commodity Price Risks

The Company is affected by the price volatility of certain commodities. Its operating activities require the on-going manufacture of and therefore require a continuous supply of polypropylene and other engineering plastics resins. However, the company being indirect user of these commodities and based on past trend to pass on these volatility to customers, does not have direct impact on profitability over a period of time.

Foreign Exchange Risks

Adverse movement of Foreign exchange does present a risk and the same arises as we do import critical raw material components. We use the services of professional advisory with an structured and panned approach to manage and reduce the impact of any adverse movement.

i) To reduce the probability and potential cause of financial risks by making the Company as neutral as possible to currency and interest rate fluctuations.

ii) We have made significant progress in looking for export markets and should soon be exporting to Europe & East Asia. This would help us hedge our US $ variation risk significantly.

iii) To create a stable planning environment by taking steps to reduce the impact of currency and interest rate fluctuations both in respect of short term and long term commitments.

Credit risk

Credit risk is the risk that counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Asset protection

The Company has ensured that all of its assets are properly safeguarded against all insurable risks using appropriate and current valuation methods and the adequacy of the same is reviewed periodically with the assistance of professional independent agencies.

Our exposure to automotive Industry passenger car segment is still very significant and any risk of depression would adversely impact car production. This risk is factored adequately in our growth plans and we have increased our engagement with non Automotive markets to reduce our growth risks. We are confident that we would be able to ride through effectively any downside in the Auto Industry.

F) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The objective of the internal control systems is to ensure optimal use of resources, safeguard the Company's assets, exercise control, and minimise system deficiencies and weaknesses. Internal Audit is carried out by an independent professional audit firm to review all aspects of the internal control system and adherence to policies and procedures. The Audit Committee of the Board of Directors reviews the internal audit reports and the implementation of corrective actions and also addresses all aspects of the Company's functioning from this perspective as required under SEBI and Company Law guidelines.

G) FINANCIAL PERFORMANCE OF THE COMPANY

Revenues

Sales revenue of the company decreased by 15.41% over the previous year. As the key prices of RM like PP trended lower during the year some of the selling prices had to be reduced in line with the pricing agreements in place.

Engineering Plastic compounds continue to get customer approval for Auto and non Auto sectors.

Input costs

There was an overall decrease in the input costs during the year. A combination of sourcing action, Formulation rationalization and Optimization coupled with price softness helped us achieve this. Production process improvement and planning was utilized to reduce our manufacturing costs significantly.

Financial costs

Reduction in interest rates negotiated with the Bankers helped in savings in the interest cost.

Higher level of Working capital necessitated was managed through longer negotiated credit period from group companies.

H) OUTLOOK -

a) Only if the trend in increasing offtake of vehicles is sustained will the volume of tonnage increase materialise. Such increased volumes and management of supply chain and logistics should help in bettering margins during the current year subject of course to the price behaviour of Polypropylene/other resins and other crude oil based inputs.

b) New commercial vehicles call for increased usage of PP compounds with enhanced performance and lesser weight to Volume ratio on interior parts and your Company is already working with major companies in this segment to benefit from this approach.

c) Control of receivables and inventory and improved process efficiency, should also contribute to the reduction of working capital requirement leading to a reduction in interest costs.

d) Company's strategy is to broadbase its product offerings into other segments of manufacturing, viz, Electrical, Powertools, Appliances, Batteries and other Non-auto segments through aggressive marketing and also offer products higher in the value chain like Engineering Plastics.

The overall outlook looks promising with the country coming out of the Covid blues.

I) DETAILS OF SIGNITIFICANT CHANGES

As per Listing Regulations, details (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with explanations therefor, are given below:

Particulars	2020-21	2019-20
(i) Debtors Turnover :	3.07	3.65
(ii) Inventory Turnover :	4.12	5.69
(iii) Interest Coverage Ratio :	4.75	10.90
(iv) Current Ratio:	1.47	1.65
(v) Debt Equity Ratio (%):	7%	5%
(vi) Operating Profit Margin (%) :	2.39%	4.96%
(vii) Net Profit Margin (%) :	0.85%	3.32%

Cautionary Statement

Statements in the Management's Discussion and Analysis Report describing the Company's projections, estimates, expectations or predictions 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 would make a difference to the Company's operations include demand-supply conditions, raw material prices, changes in Government regulations, tax regimes, economic developments within the country and other factors such as litigation and labour negotiations.

DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT PERSONNEL WITH THE COMPANY'S CODE OF CONDUCT

This is to confirm that the Company has adopted a code of conduct for the members of its Board and Senior Management Personnel. We confirm that the Company has, in respect of the Financial year ended 31st March, 2021, received from the members of the Board and Senior Management Team of the Company, a declaration of compliance with the code of conduct as applicable to them.

BO JINGEN
Managing Director

D.BALAJI
Executive Director

Place : Pune
Date : 17th June, 2021