

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

IVP Limited was founded in 1929. It started its business in the vegetable oil industry and later diversified into a number of other industries. It was originally a part of the Tata Group but later got acquired by the Allana Group of which it is an integral part today.

It was the first company to manufacture Foundry Chemicals in India in technical collaboration with Ashland Inc. in 1965. The Foundry Division caters to both ferrous and non-ferrous foundries, with its resins, coatings and other allied products.

The Polyurethane (PU) Division was started in 2017 and manufactures polyurethane chemicals for shoe soles and polyurethane adhesives for the flexible film packaging industry.

The manufacturing plants at Tarapur and Bengaluru have a combined annual capacity of approximately 50,000 MTs per annum.

IVP helps its customers to improve their product quality and manufacturing efficiency by providing technical and R&D support and offering innovative solutions.

COVID-19

The World Health Organization declared a global pandemic of the Novel Coronavirus disease (COVID-19) on 11th March, 2020. To prevent the rapid spread of infections, governments of almost all countries severely restricted travel, mandated extreme 'social distancing' measures and reduced demand-supply chains to only the 'essential'.

In India, the Government mandated a strict lockdown from 25th March, 2020 with only the essential goods and services industries being allowed to function. Accordingly, both the factories of your Company were shut down safely to comply with the lockdown orders.

Post lifting of restrictions in May 2020, the Company took all safety and preventive maintenance precautions to restart the plants and restore sales and dispatches. Consequently, your Company managed to run the operations smoothly from mid-May 2020 till the end of the financial year i.e. 31st March 2021.

However, the second wave of Covid-19 is severely affecting many parts of India again. Lockdown measures are back in force in many states, and your Company is following all the guidelines and ensuring compliances while carrying out operations.

Indian Economy - Opportunities and Threats

In the first quarter of the year under review, the Indian Economy witnessed severe de-growth due to strict lockdown for almost 45 days. Economic activities in India restarted in line with the gradual lifting of lockdown restrictions from June 2020 onwards. Subsequently, the Indian economy got back on a gradual recovery path till September 2020. In the second half of the year, a strong V-shaped recovery was witnessed across all key segments. The Indian Rupee which had depreciated during lockdown saw a gradual recovery. Energy and fuel prices continued to remain at higher levels in line with Government policies. The global shipping crisis disrupted supply chains for many product lines and led to significant volatility in raw material prices. But these supply disruptions and demand uncertainties also gave an opportunity to local suppliers offering shorter lead time to customers. Government policy on Self Reliance is likely to create many more opportunities in the times ahead.

In the first quarter, the Company incurred significant losses mainly due to very low sales volume during the lockdown period. However, the Company not only managed to retain its customer base during this difficult period, but also gained share with some new customers especially in the PU Division, and, coupled with a strong focus on sales volume growth, your Company could achieve breakeven by the second quarter.

In the third quarter, strong demand in both our key sectors, Foundry and Footwear, helped your Company grab opportunities for import substitution, especially in the PU Footwear division.

The raw materials supply constraints due to shipping delays caused by the non-availability of containers and volatility of prices of raw materials posed significant challenges for the Company. But by taking necessary mitigation measures, your Company managed to achieve high plant utilization and recorded the highest levels for sales volumes in the third quarter.



The start of the fourth quarter saw a cooling phase with a slight seasonal drop in demand, especially in the Footwear and Automotive Foundry segments. The market recovered as expected in February and March, and your Company could sustain higher levels of sales volumes during this period. However, a very high increase in key raw material prices presented significant challenges during the fourth quarter, but your Company made all possible efforts to defend margins and maintain financial performance at levels similar to the third quarter.

Overall, in spite of the challenging first quarter affected by the pandemic and lockdowns, the Company could manage to restore breakeven quickly by the first half of the year and then recover to deliver profitable growth in the second half of the year under review.

The longer term strategy of diversification into the PU sector has helped the Company significantly. Our local supply capability in PU offers an edge over imports and we hope to further grow market presence in this sector in the foreseeable future. This diversification has also given the Company an edge in the Foundry sector through increased cost competitiveness due to sharing of overheads. Also, your Company will now aggressively focus on new growth opportunities in the Foundry sector also.

Prediction of a normal monsoon leading to high food-grain production and increase in rural income is expected to improve demand for tractors and rural consumables such as footwear, irrigation pumps and pipes, etc. Focus on personal mobility is likely to support strong automotive growth in the coming years. Outlook for Construction, Energy and Infrastructure is positive, with your Company, and also its customers, tapping export opportunities in the neighbouring countries. All these factors offer considerable hope for the future. However, the second wave of the Covid-19 pandemic poses an immediate challenge and threat to the country and the Company, with both the duration of lockdown and subsequent speed of recovery affecting the business performance of the Company.

Industry Structure and Developments

Foundry Chemicals

India is the second largest producer of castings in the world after China with casting production in excess of one million metric tonnes per annum. Casting production is heavily dependent on the Automotive and Farm sectors, and both witnessed strong growth in the second half of the financial year under review. This led to the restoration of volumes in Foundry Chemicals volumes well above our breakeven level.

Footwear Chemicals

India is the second largest footwear producer after China with almost three billion pairs of annual production, with the majority of the production directed towards meeting domestic demand. The longer lead time of imports and volatility in the local market gave opportunities to local suppliers to take a higher share of the market, with your Company also benefiting from increased market share in Footwear Chemicals during the financial year under review.

New Government Initiatives

Export and Production Incentive schemes are helping the demand growth, thanks to the various schemes and financial support extended to our MSME and Export customers with your Company also benefiting from the improvement in the business activities of these customers.

Financial Performance

During the financial year 2020-21, the Company focused on capacity utilization and sales growth.

Gross Revenues from Operations grew to ₹28,968 lakhs in the year under review, from ₹22,876 lakhs in the previous year.

EBIDTA grew substantially to ₹1,871 lakhs as compared to ₹220 lakhs in the previous year, with an impressive growth in PBT to ₹668 lakhs as compared to the loss before tax of ₹1,283 lakhs in the previous year, and PAT to ₹450 lakhs as compared to the loss after tax of ₹862 lakhs in the previous year.

Strategies for the Future

The Company has successfully established many new products in the new business division of Polyurethane Adhesives for flexible laminated films. With this diversification into an 'Essential' sector, your Company is now looking to further accelerated growth while reducing dependency on the existing Foundry and Footwear divisions.

Operations

The manufacturing sites at Tarapur and Bengaluru undergo continual improvements in terms of new technology absorption as well as automation, using operational excellence tools to standardize its processes and activities and ensure efficient systems.

The Company has secured recertification from M/s. Intertek for all three ISO Standards of Quality, Environment Protection and Occupational Health and Safety valid for the next three years.

The Company has also initiated the use of e-procurement tools and further upgraded the existing cloud-based ERP system and IT infrastructure to further enhance the “work from anywhere” capabilities of the support staff.

Internal Financial Control Systems

The Company has put in place adequate internal controls covering operational, financial and entity level transactions. These controls are tested on a periodic basis through internal audit programs and self-reviewing mechanisms.

The Company uses the RAMCO ERP system which provides a framework for business processes and controls while giving real-time data analytics.

Key Financial Ratios as on 31st March, 2021

In accordance with SEBI (Listing Obligations and Disclosure Requirements) Amendment Regulations, 2018 the Company is required to give details of significant changes (change of 25% or more as compared to the immediately previous financial year) in key sector-specific financial ratios.

The Company has identified the following ratios as key financial ratios:

Particulars	2020-21	2019-20
Debtors Turnover (Number of Days)	146	171
Inventory Turnover (Number of Days)	84	81
Current Ratio (x)	0.96	0.86
Interest Coverage Ratio (x)*	1.96	-0.26
Debt Equity Ratio (x)	1.62	1.38
Operating Profit Margin (%)**	4.71	-1.16
Net Profit Margin (%)**	1.55	-3.77

The reason for variation in key ratios are as under

*Company has achieved profitability during the period and reduction in interest compared to the previous year with low cost borrowings.

** In the current financial year, in spite of the slowdown in the economy due to the situation revolving around the pandemic and lockdown, the Company managed to increase its revenues as well as profitability as compared to the previous year.

Threats, Risks and Concerns

The risks are identified and steps are taken to mitigate the same by the Company. Risk mitigation actions are reviewed on a periodic basis by the Management and Auditors and the status is presented to the Audit Committee. Measures suggested by the Audit Committee are implemented and reviewed on a regular basis.

Some of the risks and threats as seen by the Management are mentioned below:

Risks

- Fluctuations and severe drop in market demand;
- Fluctuations in raw material prices caused by increase in feedstock prices and/or regulatory restrictions in market situations;
- Currency exchange fluctuations;
- Regulatory matters.

Threats

- Disruptions in production due to COVID-19;



- Increasing level of competition with new entrants and threat of low cost imports;
- Introduction of new technologies that make current products irrelevant.

Research and Development

R&D is an important part of the Company's strategy. The R&D outcomes are continuously monitored and are linked to market realities to achieve sustainable growth.

The Research team is involved in providing effective solutions to customers, improving internal productivity through process optimization, implementing cost saving measures such as import substitutions as well as developing new grades during the year keeping the Company abreast of domestic as well as international competitors.

Many new formulations were developed to meet new customer requirements and increase the product portfolio of the Company during the year under review.

Human Resources

There were a number of engagement initiatives taken by the Company for its employees focusing on Health and Wellness training to support employees during the pandemic period.

The Human Resources Department has emerged as a strong strategic function in helping the organization pursue its people development strategy. Talent identification and Performance based Rewards and Recognition mechanisms have been put in place and the same are reviewed on an annual basis.

The Industrial relations were amicable and congenial throughout the year under review.

Health, Safety and Environment

The Company is dedicated to reinforcing and improving the process of Quality, Environment, Occupational Health and Safety Management. The Corporate Office and both the factory sites are certified for Integrated Management System (IMS) comprising certifications of ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 by the internationally renowned certification body Intertek, with the Company clearing the recertification audit therefor.

A continuous effort is being made by the Company to lower effluent loads, reduce consumption of energy and water, recycle water, generate energy through renewable sources, lower emissions and greening of its factory sites to fulfill its commitment to Sustainable Development.

Your Company continues to focus on the well-established 'zero accident' policy.

Refresher safety training held for all employees across all sites has brought about greater awareness amongst all employees and has ensured lower number of unsafe incidents.

The tradition of participating in the 'Safety Week' has been continued and your Company highlighted various safety issues through competitions and other initiatives. The Management as well as the workers had participated enthusiastically in the same.

Cautionary Statement

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

By Order of the Board of Directors

Mandar P. Joshi

Whole Time Director & Chief Executive Officer

Place : Mumbai
Date : 11th June, 2020

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