ANNEXURE 'B' TO DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE ECONOMY

The World economy saw a slower expansion in 2019 due to sluggish growth in advanced economies and slowdown in emerging and developing economies, caused by macro-economic stress, tight monetary conditions and the continued US- China trade tensions. As per IMF estimates, after the modest growth of 3.6% in 2018, global economy witnessed a slower growth of 2.9% in 2019.

INDIAN ECONOMY: PERSISTING SLOW DOWN AGGRAVATED BY COVID-19 CRISIS

At the start of fiscal year 2019-20, there were hopes of Indian economy regaining the growth momentum, mainly buoyed by the large domestic driven consumption. But the fiscal year began on a tough note with a five-year lower GDP growth rate of 5.1% (later revised to 5.6%) in the first quarter with global headwinds casting its shadow on the economy.

The slowdown continued in the subsequent quarters with official estimates pegging GDP in the first nine months (April-December) at 5.1% against 6.3% in the same period in 2018-19.

Though the country experienced prolonged rainfall in the two main monsoon seasons resulting in higher farm output, manufacturing activity was hit hard with weak demand and lower capacity utilisation. Construction sector saw subdued growth. Investment in terms of gross capital formation declined.

The persisting slowdown was aggravated by the sudden outbreak of coronavirus pandemic and nation-wide lock down from March 25, 2020. This led to the country clocking a moderate GDP growth of 4.2% in 2019-20 against 6.1% in 2018-19, as per official estimates**.**

SECTORAL PERFORMANCE

As in the previous year, the country had favourable monsoon last year. There was sufficient and prolonged rainfall in most parts of the country both during the South-West and North-East monsoon seasons.

This along with higher crop prices, increased crop loans and the schemes implemented by the Centre and States improved the prospects of rural economy.

During the year, agriculture and allied sector was the bright spot and clocked a good growth of 4% against 2.4 %in the previous year.

Manufacturing activity remained weak during the year. It contracted 1.4% in the fourth quarter of last year against a 0.8% fall in the previous Quarter. It was the third quarter of decline in manufacturing value added.

As a result, the sector reported a meagre growth of 0.03 % in 2019-20 compared to 5.7% in the previous year.

The construction sector also saw a contraction of 2.2% in the fourth quarter against a fall of 0.04% in the previous quarter and its growth during the year fell to 1.3% from a good growth of 6.1% in 2018-19.

In March 2020, industrial production crashed by 16.7% in the wake of Covid-19 induced nationwide lock down from March 25. With weak industrial activity during the year, the overall growth in terms of Index of Industrial Production was a mere 0.7% compared to 3.8% in 2018-19.

CORE SECTOR PERFORMANCE AFFECTED BY SLOWDOWN

The slowdown in the economy during the year and the contraction in output affected the performance of core sector or infrastructure sector comprising eight Industries having a weightage of 40.27% in the Index of Industrial Production (IIP). The cumulative growth of core sector in 2019-20 was a mere 0.6% against 4.4% in the previous year.

In line with the weak performance of core sector last year, cement sector also witnessed a marginal negative growth compared to a reasonable growth of 13.31% in 2018-19. According to official estimates, last year, cement production declined to 334.48 million tonnes from 337.32 million tonnes in the previous year.

The industry in the South reported a de-growth of around 8% last year reversing the turnaround reported in 2018-19 with a robust growth of 19%. The decline in demand was primarily in Andhra Pradesh and Telangana due to the deferment of infrastructure spending by the two Governments.

The financial crisis in non-banking financial companies affected financial services, real estate and others resulting in a lower growth of 4.6% in 2019-20 compared to 6.8% in the previous year. The growth in the other segment- trade, hotels, communication and transport has more than halved to 3.6% against 7.7% a year ago. The overall services sector GVA moderated from 7.7% in 2018-19 to 5.5% last year.

EXPORTS, IMPORTS & TRADE BALANCES

The recovery in exports witnessed in the last two years was halted in 2019-20 in the wake of global slowdown and contraction in world trade which was accentuated by Covid-19 crisis. In March 2020, exports suffered a negative growth of 35%

Cumulative value of exports in 2019-20 was USD 314.31 billion (₹ 22,26,566.71 crore) against USD 330.08 billion (₹ 23,07,726.19 crore) in 2018-19, registering a negative growth of (-) 4.78 per cent in Dollar terms (negative growth of (-) 3.52 per cent in Rupee terms).

Cumulative value of imports in 2019-20 was USD 467.19 billion (₹ 33,07,977.05 crore), against USD 514.08 billion (₹ 35,94,674.61 crore) in 2018-19, registering a negative growth of (-) 9.12 per cent in Dollar terms (negative growth of (-) 7.98 per cent in Rupee terms).

The decline in imports narrowed the trade deficit to $152.88 billion against $184 billion in 2018-19. This in turn narrowed the current account deficit to 0.9% of GDP compared to 2.1% in the previous fiscal.

India's foreign exchange reserves stood at $ 475.20 Billion in the week ended March 27,2020.

FISCAL DEFICIT

Due to shortfall in collections apart from lower revenue mop up from disinvestment and spectrum, the fiscal deficit widened to 4.59% of GDP in 2019-20 to ₹9.35 trillion, overshooting the revised target of 3.8% (₹ 7.66 trillion).

INFLATION

During the year, spike in vegetable prices in the later half of the year and the sharp increase in fuel prices after December pushed CPI inflation during the year rate to a higher trajectory and the average CPI inflation during the year came to 4.77% (above the targeted 4%) compared to 3.43% in 2018-19.

In terms of wholesale price, on account of broad-based moderation across segments along with deflation in fuel and power, build up inflation rate (WPI) touched the four year low of 1% last year compared to 3.1% in the previous year.

CEMENT INDUSTRY

The Cement Industry after witnessing a healthy demand growth of 13% in the previous year 2018-19, remained sluggish during the year under review and slumped to register a marginal negative growth. As earlier mentioned, the Indian economy which grew at 7.2% and 6.8% in the previous two fiscal, witnessed a slowdown coupled with the out-break of COVID -19 pandemic during the last quarter to register an approximate growth of only 4%. Apart from general economic slowdown, the cement demand was also affected post the general elections in May'19 due to stalling of some of the existing projects for review, extended monsoons, low capital outgo on infrastructure and road activities and was compounded by the stress in the financial sector and thereby low growth in housing sector.

Though there was some recovery in cement demand from December'19, the momentum could not be sustained with the out-break of COVID-19 pandemic which impaired the construction activities in total. The emergence of this virus has crippled the economic activities worldwide with experts predicting negative GDP growth ranging from 3 to 5% worldwide for the Financial Year 2020-21.

The selling price of cement which started improving from February'19 went down after the first quarter of the financial year under review resulting in lower realization adversely affecting the bottom line. The industry, during March 2020 alone had witnessed a decline in growth by 25% in production as compared to earlier year. The cement industry in South with supply overhang had a negative growth of 15% during the 4th quarter and a de-growth of around 8% during the year under review.

To combat the spread of the virus, the union government announced a nationwide lockdown from the last week of March'2020 resulting in complete stalling of all activities. The lockdown has also been extended with some relaxations. The lockdown could have a near/long term impact on the cement industry with migrant labour in the construction industry returning to their home towns stopping the work then and there. The capacity utilization of the industry in general on an all India basis was close to 74%. Southern region with highest production capacity could register a capacity utilization of around 60 to 62% only. Southern States in particular Andhra Pradesh, Telangana and Maharashtra which witnessed upward surge in demand in the previous fiscal, witnessed a steep decline in demand post general elections, as the ongoing projects were affected due to change of Governments in the respective states. Our company with five of the units situated in these States was affected more than that of peers. The positive indicator for the year was softening of the fuel prices which helped in mitigating the impact on account of the decline in demand. The volatility of the exchange rate of rupee against dollar continued to haunt the industry reducing the benefit of softening fuel price.

However, with the relaxation of restrictions from the month of May 2020, the cement demand has started recovering and the new initiatives announced by some of the State Governments like construction of roads, irrigation projects, low cost housing etc have further improved the prospects for the cement industry. The outlook for the industry for the foreseeable future appears to be cautiously optimistic given the smart recovery of cement prices and softening of the crude prices further.

COMPANY PERFORMANCE:

The performance of the Company was in line with the performance of the industry in the region. The production and sales performance are as under:

	Lakh Tonnes		
	2019-20	2018-19	increase/ (decrease)
Clinker production	**80.51**	91.59	(12%)
Cement Production	**110.16**	123.11	(11%)
Cement & Clinker sales	**110.22**	124.40	(11%)

The year which started with capacity utilisation of close to 78% dropped during the later quarters due to various factors mentioned above and ultimately registered a 71% capacity utilisation for the year under review as compared to 79% in the previous year. As earlier mentioned, the selling price of cement which went up substantially from the month of February'19 remained at remunerative levels till July'19 and softened thereafter. The variable cost of production was lower by 4% and kept under control despite lower capacity utilisation and marginal reduction in blended cement production. The operating parameters of fuel consumption and power consumption was maintained as that of previous year despite lower production. While fuel prices came down by 7%, the variable cost of power was lower by 5%. Despite the vagaries in the price of diesel, the logistics expenses were also kept under tight control during the year under review.

The net plant realisation remained flat as that of previous year. The reduction in volume meant a contribution loss of more than Rs.150 crores for the year. However, with the improved variable cost, the overall EBIDTA was at Rs.613 crores as compared to Rs.669 crores in the previous year. There was exceptional items amounting to Rs.100 crores representing provision for expected credit losses in respect of advances and receivables primarily from subsidiaries. The interest cost were higher by Rs.10 crores at Rs.334 crores while depreciation was lower by nearly Rs.5 crores at Rs.247 crores. After considering the exceptional items as above and the related tax provision thereon, the loss for the year was at Rs.36 crores as compared to a profit of Rs.69 crores in the previous year. After considering other comprehensive items comprising mainly gain from valuation of PPE, the overall comprehensive income for the year was higher at Rs.205 crores as compared to Rs.64 crores in the previous year.

COST MITIGATION MEASURES AND OTHER IMPROVEMENT MEASURES:

Input price of materials has been increasing every year and the year was no exception. The variation in diesel prices resulted in significant increase in the raw materials cost. However, the fuel price softened during the year which gave relief from the pressure on input cost. The increase in price of petroleum products affected the operating cost of mines and the product distribution cost. The company's on-going efforts continued throughout the year through proactive steps.

- On the raw material cost front, the same remained flat during the year due to optimal sourcing and judicious usage of costlier raw materials.
- On the power and fuel cost front, the company has been constantly endeavouring to reduce the same by optimising the usage of imported coal and petcoke based on cost effectiveness of the same.
- To ensure reduction in carbon emission, the blending efficiency in cement was improved further.
- The Company also utilised all the waste fly ash generated from its power plants in cement manufacture leading to cost reduction.
- Effluents of other industries like slag, chemical gypsum, wet fly ash, etc. were also used in the manufacture of cement as part of the initiative.
- The thermal power used in the overall power mix was improved to 66% from 61% in the previous year despite the drop in overall production of cement and lesser quantum of power used. The cost of thermal power generation was also brought down during the year through improvement in operating efficiency of the power plants.

- The power from Waste Heat Recovery System was also increased marginally during the year to 6.10 crores units from 5.90 crores units in the previous year and could meet upto 6% of the overall requirement of power resulting in cost savings.
- All these efforts resulted in the average variable cost of power coming down to ₹ 4.75 per unit as against ₹ 5.04 per unit in the previous year.
- The Company also could maintain the overall power consumption at the previous year level despite drop in production by 11%. There was also marginal reduction in heat consumption of about 3 Kcal per kg of clinker in specific heat consumption.
- The Company could marginally increase the usage of alternate fuel based on availability upto 2% overall fuel mix duly contributing for the carbon emission reduction.
- Despite the increase in cost of diesel through most part of the year, the freight and forwarding expenses was also kept under control with the significant economies achieved for the distance carried.
- The company also has invested in bag filters and necessary pollution control equipments in order to comply with the latest emission norms duly contributing for carbon emission reduction.
- The company is also in the advanced stage of installing Energy Efficient Cement Mill at one of its plants and is in the process of setting up a Waste Heat Recovery System at one more of its plant to reduce cost further.
- On the fixed cost front, the company has already taken steps through pruning down man power further at its locations, closing down unviable divisions and has effected policy changes to contain spiralling man power cost.
- Despite the increase in wages through all India settlement for workers, increase in wages to casual labour through increase in minimum wages, the overall manpower cost was brought down during the year on account of the above reason.
- The company has taken further steps in streamlining the compensation for the channel partners for selling cement and barring one-off expenses, the overall overhead expenses was also kept under control during the year under review.
- The company has also made further in-roads into the fixed cost and has embarked on schemes to substantially reduce the same through usage of technology and through leveraging on digital platforms which has already started paying rich dividends.

GREEN ENERGY AND CLEAN DEVELOPMENT MECHANISM:

- The Company's goal is to ensure the sustainable development through meeting the norms of environment regulations without compromising on the standards.
- The company accordingly continuously maintain high governance standards, shows respect for nature and social responsiveness towards nearby community.
- In order to meet the goals, the company has been striving beyond its chartered sustainable road map to control carbon emissions and ensure a better climatic environment nearby its plants.
- All the emission levels of the plants at various sections are continuously monitored through Continuous Ambient Air Quality Monitors which are directly linked to State Pollution Control Boards.
- Despite the vintage of the plants and the level of automation, the company has been striving hard to maintain all the norms of emissions and has also been taking steps to comply with the revised norms of Nox and Sox emissions and further investments are on the anvil to tighten these emissions.
- Based on the availability, the company has been maximising the usage of cost efficient alternate fuels including paper waste, agricultural waste and wood chips, etc. to ensure that we are in the carbon emission reduction map.
- The Company was the earliest one in India to get the licence for blended cement production and as part of its mission and vision, the blending efficiency is being continuously improved further through lesser clinker consumption duly accounting for reduction in carbon emission.
- The Company is the first one in India to install a Waste Heat Recovery System at its Vishnupuram plant which has contributed 6 crore units aiding in this mission of environment protection.
- The company has also duly replaced most of its Electro static precipitators with high efficiency bag filters as part of energy management program and emission control.

- The Company has also installed suitable pollution control equipments at various critical locations at its plants to ensure that the fugitive dust emission is tightly controlled.
- As earlier mentioned, the company is ensuring sustainable development of the surrounding villages through diversion of water collected from its mines for recharging nearby village ponds and has also created ponds in its exhausted mines for the usage of local village agricultural developments. Plans are also on the anvil to refill the exhausted mines with rejects as per the directives of the Governments to ensure sustainable long term vegetation.
- Water conservation is on the top most agenda of the company and the company has taken steps to recycle the water after treatment from its sewage treatment plants and also through rain water harvesting at its plants, mines and colony.
- To ensure that we conserve nature and preserve bio-diversity, the company has been associated with afforestation in mines area at some of its locations.
- Long term sustainable environment is the mission of the Company.

HEALTH & SAFETY:

- For your company maintaining the health and safety of its constituents is a non negotiable item and it is an integral part of the Company. The Company has a very well-defined Safety, Health and Environment (SHE) policy which mentions the objectives, ownership and accountability.
- The policy covers all its employees, stakeholders including contractors, nearby community, customers, visitors, etc.
- The company has standard operating procedures across its locations for employment of contract labourers including work permit system.
- Frequent safety audits are being conducted at all the factories through rotation system by seniors from other plants.
- The company also employs external agencies to conduct electrical safety programmes, fire safety and instrumentation safety duly imparting training on best practices.
- Personal protective equipments to all the executives, staff and workers are being provided and stringent rules are framed for strict adherence to the safety protocol.
- Daily safety prayer meetings and oaths taking are being conducted at all the units.
- The company has also got high level safety review committee comprising senior management people who visits all the plants and review the safety protocols, accountability, contractor safety management and ensuring zero harm culture across the company.
- The company has also taken steps to share key lessons of any incidence in any of the units across the group to avoid similar incidence occurrence through its internal website.
- Process safety audits to identify the grey areas and gaps in critical sections like coal mill, mining operations, raw mill handling are being conducted regularly.
- As regards health of the employees, the welfare measures include provision of facilities like GYM, play area for sports at all our locations in addition to recreation clubs, ladies clubs, etc.
- Employees health are periodically monitored through health check ups and details regarding blood group, etc., have been digitized.
- The company has also provided medical facilities at all our locations for timely treatments and qualified medical practitioners are in place to monitor the health of the employees.
- All the locations are also provided with Ambulance service for emergency treatments.
- As regards surroundings, safety camps programmes and family welfare programmes are being conducted at periodic intervals.
- As part of CSR, the company has been conducting medical camps in the nearby villages including eye testing, provision of spectacles, free cataract operations, distribution of hearing aids etc.
- The company has also been providing support to stockists to ensure that they adopt safety practices while handling or storing our products.
- Periodical safety celebrations at factory and mines are also organised across all the plants duly recognising the best adopted safety practices.

BUSINESS RISKS AND OPPORTUNITIES

As earlier mentioned, the company has a comprehensive Risk Management Policy which is well-defined to include strategic, operational, financial compliance related risks and the mitigation process are also detailed. The Board of Directors of the Company periodically review the same and plan for action to be taken.

The risk management policy in general encompasses assessment process covering projects, raw materials, occupational health, environment, regulatory rules, competition, demand, substitute products and other operational risk related to the business. Periodical meetings are held by the senior management to identify business risks and to formulate plan for managing the same which helps in strategic decision making by the Board easily.

The key risk currently relates to the fluctuation in demand for cement fundamentally driven by the economic growth in the country. The slowdown of the economy and the subdued infrastructure development has led to constriction in demand for cement. Particularly in South where there is capacity overhang, this risk is looming large leading to fluctuation in cement price impacting the bottom line. However, with the initiatives in infrastructure back on stream in the states of Andhra Pradesh, Telangana and Maharashtra and with the low cost housing schemes etc., being envisaged, it is expected that the risk in this regard could be mitigated in the near future.

Another key risk relates to the compliance with the new regulations on climate and environment in the form of reduction in green gas emission, discharge of waste materials, containment of Co2 emission, etc. This necessitates very strict compliance to emissions like Sox and Nox and suspended particulate matter in the atmosphere.

In addition to heavy investments to comply with these regulations, the marginal non-compliance if any to the standards is viewed very seriously with punitive damages and closure of business like what has happened to some of the industries in the South.

The Company has periodically invested on the capital projects for this and is also in the process of investing on the primary and secondary abatements processes to contain these emissions.

The Company has also taken steps to reuse industrial waste water, water treatment from sewage treatment plant, power through WHRS, undertaken plantation development of green belt in plant and mines area to protect the environment.

The Company has also invested heavily on the pollution control equipments duly replacing the electro static precipitators with high efficiency bag filters to comply with the norms.

In order to control dust emission, the Company has also taken steps through Computational Fluid Dynamics (CFD) analysis of Cooler ESP along with upgradation of 3 phase transformer, frequency controllers rectifier sets together with installation of water spray system to ensure stack emission within norms. For controlling the Nox, CFD modelling has been undertaken along with burner tip modification and TAD to calciner inlet duct modification which has resulted in Nox emission within the prescribed limits. As far as Sox is concerned, all the Company’s plants complied with this regulation with emission level well within the regulatory limit.

Industry is also raw material intensive which constitutes sizable portion of the operating cost. Limestone is among the primary raw material used in the manufacture of cement and ensuring adequate limestone reserves is the key risk considering the amendments introduced by MMDR Regulations from 2015. While the process and securing mining lease have become cumbersome with introduction of auctions and floor pricing etc, the cost of material is also becoming highly prohibitive given the trend of auction rates prevailing. The process of land acquisition has also become more complicated, challenging and expensive. The time taken for obtaining environment clearances and Forest wild life clearances, which are pre-requisites for commencing the mining and plant activities are also very high and exhausting.

Your Company is guarded against this risk to a great extent with most of the mining licenses being renewed till 2030 as per the guidelines of MMDR Act. The Company has also got sufficient mining areas which can take care of the company’s requirements for several decades and also will provide sufficient back up for expansion at appropriate time.

The Company has also been scouting for new areas always to augment its reserves further. The company has also been conserving the limestone reserves through purchase in the markets , increase in the usage of additives in the overall mix and through higher usage of marginal grade limestone without compromising on the quality thereby increasing life of our mines.

Cement manufacture is an energy intensive process and there is high dependence on fuel like coal and petcoke which is required not only for the kilns but also for the power plants. The availability of quality fuel at an affordable price is an area of concern for the industry. The power and fuel cost which forms a significant portion of its operating cost has always been fluctuating widely based on the movement of price of fuel and fluactuations in exchange rate. Domestic coal available in India is given priority for other sectors like power with cement being last in the list. Though fuel supplies agreement have been entered into by some of the units, majority of the cement players resort to import of coal and petcoke. Also the quality of the fuel available inland is low and the landed cost per calorie is slightly higher when compared with the imported fuel.

The company has been using coal and petcoke judiciously based on its cost per calorie and has been buying in the spot markets duly spreading out the purchases throughout the year to derive the benefit of any downward movement in the prevailing price or freight rates. There are no fixed price contract for fuel. Based on availability and cost economies, the company has been using alternate fuel also like agricultural waste, paper waste, etc.

As far as other raw materials like Gypsum is concerned, the Company is reasonably secured against this risk through contracts with nearby fertilizer plants and has also been importing unhydrated Gypsum which is available in plenty from Thailand.

Fly ash requirements are met through long term contract from the nearby thermal power plants.

The ever fluctuating foreign exchange rate is also a cause of concern and is being partially covered through export earnings while major portion of exposure is covered through hedging.

As far as requirements of the power is concerned, the southern States which were experiencing shortage of power in the early 2000s have turned out to be power surplus States. Your Company is reasonably secured against the power risk with its own thermal power plants in Tamil Nadu, Telangana and Rajasthan, Waste Heat Recovery System at Vishnupuram, Wind Mill of 18.65 MW, availing of low cost power through shareholding in APGPCL and power through its subsidiary which has gas power plant in Ramanathapuram. The company's dependence on high cost electricity board power is low at 14 to 15%.

Ensuring freight cost under control is a challenging task in the face of substantial movements in the price of diesel and frequent increase in the railway tariff. The company has taken lot of steps in containing the cost through substitution of more market, reduction freight rates for longer leads which helped in containing logistics cost despite the substantial increase in the price of diesel.

Legal and regulatory compliance risks are being addressed through a committee comprising of our legal department, experts and through professional advice.

As regards the ever changing laws, rules, accounting standards, regulations relating to corporate governance, public disclosures and requirements of listing agreements, the Company is committed to maintain a very high standard of corporate governance.

In the last few years, technology has evolved manifold and so is the risk attached to it. The cyber security also assumes importance as any attack can impact the business operations machinery or human asset. The above has been periodically tested through impact assessment. Most of its hardware and software and its security management in general are aligned in line with the industry standards. The company has also provided necessary back up system to its critical servers to mitigate this risk.

Talent Management and retaining quality manpower is also a very big challenge and the company has been able to overcome this through improved morale, excellent employer and employee relationship and has inculcated a sense of belonging among employees. Specialised training courses are conducted to increase the skill at various levels of management staff to prepare them as future managers with high responsibility. The cost of manpower which is also an area of concern has been addressed through various measures to rationalise the benefits to employees and also through shutting down non remunerative verticals, etc. The company has brought down overall manpower cost through various measures over the years.

OUTLOOK

The year began on a grim note with lockdown from March 25, 2020 and stringent measures to restrict the spread of Coronavirus severely disrupting the economic activity.

World Bank expects a significant contraction of 5.2% in world economy in 2020 while IMF expects it to shrink by 3%. Indian economy is also expected to contract by 4.5% in 2020-21 following longer period of lockdown and slower recovery than expected in April.

While the Government has announced a series of stimulus and monetary policy measures, they are largely aimed at easing supply side constraints. Economy is still facing downside risks to growth and the recovery in demand mainly hinges on pick-up in economic activity with focus on job creation and income generation.

The expected good rabi crop and the forecast of normal south west monsoon augur well for the rural economy. Given that India's economy is driven by its high domestic consumption and a strong rural base, it is expected that the economy will bounce back once the pandemic situation is under control.

According to experts, there are also reports of green shoots in terms of certain economic indicators in some sectors reflecting the economic recovery.

It is hoped that the Government will pursue the ambitious plan to give push to big ticket investments in the infrastructure projects identified across the sectors as part of National Infrastructure pipeline which has envisaged an investment of over Rs102 lakh crore over five years till 2025.

There are expectations of increased public spending on rural infrastructure, irrigation, road building and other projects. This along with pick up in individual home building activity is expected to improve the cement demand.

The Budget for 2020-21 has also proposed a new tax regime for personal income with revised tax rates and has extended the tax benefits for affordable housing.

These measures are expected to stimulate the housing and construction activity and improve the cement demand with better prices.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

The role of Human resources has evolved over a period of years. The Company is focussed on having least manpower at all its locations and has been continuously reducing the workforce through multitasking, automation etc. The human relation policies have also been revised with suitable performance appraisal schemes in order to ensure a strong performance oriented culture and at the same time focus on developing leaders for future. Various development programmes including “Leaders of Tomorrow” are conducted by premium institutions for grooming people as per succession policy. Training programmes are also conducted wherever necessary for bridging competency gaps for critical departmental leaders to improve their performance. The industrial relations remained cordial throughout the year at all our plants. The overall number of employees on the rolls of the Company as at the end of the year under review was 2182.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has a well-defined internal control system commensurate with size, scale and complexity of operation to support the business operations to ensure statutory compliance. The internal audit is carried out by a team of outside professional firms whose function is defined through internal audit charter, which includes inter alia transaction audit, systems audit and process audit. In order to maintain their independence and objectivity, the internal audit function directly reports to the Audit committee.

External auditors carry out concurrent audit of all the plants and offices which adds to the stability of the internal control systems. The detailed annual audit plan is rolled out and the same is approved by the Audit Committee. Suitable internal checks have been built in to cover all monetary transactions with proper delineation of authority, which provides for checks and balances at every stage. The Company has a strong system of budgetary control which covers all aspects of operations, finance, capital expenditure at micro level and on a monthly basis reported directly to top management. All the physical performances and efficiency parameters are monitored on a daily basis and actions are taken immediately. The Company has an Audit Committee of Directors to review financial statements to shareholders. The role and terms of reference of the Audit Committee cover the areas mentioned under SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and Section 177 of the Companies Act, 2013 besides other assignments referred to by the Board of Directors from time to time.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

HIGHLIGHTS OF FINANCIAL PERFORMANCE:

₹ Crores

	2019-20	2018-19
Net Sales / Income from operations	**5057.54**	5627.98
Other Income	**27.74**	30.98
Total Income	**5085.28**	5658.96
Total Expenditure	**4472.33**	4990.06
Operating Profit	**612.95**	668.90
Operating Margin %	**12.05%**	11.82%
Interest & Finance Charges	**334.47**	324.17
Depreciation	**246.85**	251.31
Profit / (Loss) before Exceptional items	**31.63**	93.42
Exceptional items	**(100.04)**	--
Profit / (Loss) before tax	**(68.41)**	93.42
Tax Expenditure/Deferred Tax/MAT	**(32.90)**	23.98
Profit / (Loss) after tax	**(35.51)**	69.44
Other Comprehensive income/(Exp)net	**240.61**	(5.30)
Total Comprehensive income	**205.10**	64.14

The overall turnover was low on account of lower volume by 11% during the year. While the net plant realisation was up by 1% only, variable cost was lower by 4% resulting in the operating profit of Rs.613 crores as against Rs.669 crores in the previous year despite huge contribution loss due to lower volume. Exceptional items mainly comprise of expected credit losses in respect of some advances and loans mainly from subsidiaries. The other comprehensive income includes the gain arising from the fair valuation of PPE.

Key Financial Ratios:

Ratio	**2019-20**	2018-19	%change
Debtors Turnover (Days)	**52**	47	9.3%
Inventory Turnover (Days)	**96**	84	13.3%
Interest Coverage Ratio	**1.83**	2.06	(11.0%)
Current Ratio - excluding Current Maturities	**0.90**	1.04	(13.9%)
Debt to Equity Ratio - including short term borrowings and current maturites	**0.65**	0.62	4.5%
Operating Profit-EBIDTA Margin (%)	**12.05%**	11.82%	2.0%
Net Profit Margin (%)	**(0.70%)**	1.23%	(156.9%)
Return on Networth (%)	**3.79%**	1.22%	209.4%

Notes:

As the profit for the year 2019-20 was negatively impacted due to various reasons, as mentioned in the Directors' Report, the profitability ratios changed unfavourably during the year and had consequential impact on other ratios as well.

The significant amount arising out of fair valuation of PPE during the year 2019-20 contributed to higher Return on Networth compared to previous year.

Cost of goods sold = Total expenses excluding selling expenses, donation and finance cost.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include global and domestic supply and demand conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other factors such as litigation and industrial relations.

On behalf of the Board

N. SRINIVASAN
Vice Chairman & Managing Director

RUPA GURUNATH
Wholetime Director

S. BALASUBRAMANIAN ADITYAN
Director

Place : Chennai
Date : 10th August, 2020