

# MANAGEMENT DISCUSSION AND ANALYSIS

## Global economy

In 2017, broad-based improvements in investment across most countries, particularly advanced and commodity-exporting ones, stimulated the world economy to grow by 3.8%. Supported by conducive financial conditions; higher output in the advanced economies of euro area, Japan and the US, among others; recovering commodity prices; and increased trade activities, global economies are projected to grow at the rate of 3.9% in both 2018 and 2019. [Source: International Monetary Fund (IMF)]

### Global growth pattern (%)

|                                   | 2017 | 2018 (P) | 2019 (P) |
|-----------------------------------|------|----------|----------|
| <b>World output</b>               | 3.8  | 3.9      | 3.9      |
| Advanced economies                | 2.3  | 2.5      | 2.2      |
| United States                     | 2.3  | 2.9      | 2.7      |
| Euro Area                         | 2.3  | 2.4      | 2.0      |
| Japan                             | 1.7  | 1.2      | 0.9      |
| Other Advanced Economies*         | 2.5  | 2.4      | 2.3      |
| Emerging and Developing Economies | 4.8  | 4.9      | 5.1      |

P: Projections | \*Excludes the US, euro area countries and Japan  
(Source: International Monetary Fund)

## Indian economy

Second Advance estimate released by the Central Statistics Office (CSO) place the full FY 2017-18 growth rate at 6.7%, lower than 7.1% in FY 2016-17, but in line with the 6.75% growth forecast by the Economic Survey of India 2017-18. This slowdown is attributed to the lingering effect of 2016's demonetisation and the roll-out of the Goods and Services Tax (GST) in July 2017. However, economic activity revived in the second half of the financial year. At 7.7%, India's GDP growth in the January-March quarter of 2018, was the fastest in seven quarters – bolstered by strong performance in construction, manufacturing and public services

|                  | FY 2017-18 | FY 2016-17 |
|------------------|------------|------------|
| April-June       | 5.6        | 8.1        |
| July-September   | 6.3        | 7.6        |
| October-December | 7          | 6.8        |
| January-March    | 7.7        | 6.1        |
| <b>Total</b>     | <b>6.7</b> | <b>7.1</b> |

[Source: Central Statistics Office (CSO)]

## Global trade scenario

World merchandise trade volume grew to 4.7% in 2017, from 1.8% in 2016, led by rising import demand across geographies, particularly Asia. Given strong global economic performance and supportive government policies, growth in the volume of world merchandise trade is forecast to remain strong in 2018 and 2019, after exhibiting the largest increase in six years in 2017. Global merchandise trade volume is forecast to grow 4.4% in 2018, driven by increased investment and fiscal expansion.

The ratio of trade growth to GDP growth is expected to be 1:4 in 2018, marginally lower than 1:5 in 2007. fell below 1:1 in 2016, for the first time since 2001. Risks surrounding trade policies could potentially affect economic confidence. Continuation of protectionist policies is likely to lower trade growth in 2018. [Source: World Trade Organisation (WTO)]

|   | 2016 | 2017 | 2018 (P) | 2019 (P) |
|---|------|------|----------|----------|
| Growth in volume of world merchandise trade | 1.8  | 4.7  | 4.4      | 4.0      |

P: Projections  
[Source: World Trade Organisation (WTO)]

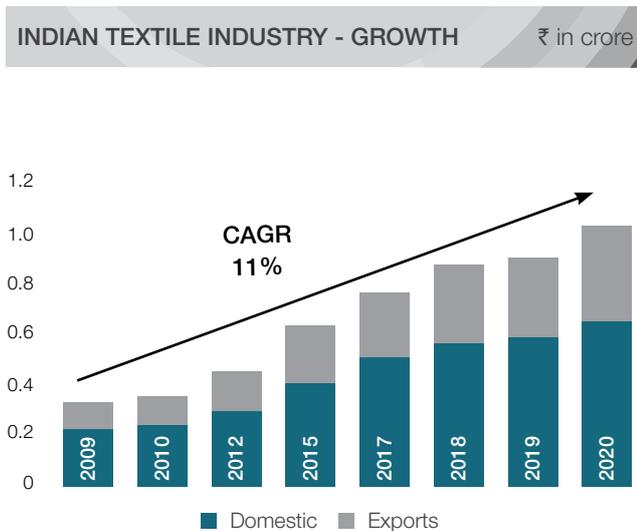
## Indian textile industry

Textile plays a major role in the Indian economy. It contributes 14% to industrial production and 4% to GDP. With over 45 million people, the industry is one of the largest sources of employment generation in the country.

The size of India's textile market, as of July 2017, was around US\$ 150 billion. It is expected to touch US\$ 250 billion by the year 2019, growing at a CAGR of 13.58% between 2009-2019E.

The Central Government plans to finalise and launch a new textile policy, with the objective of achieving US\$ 300 billion worth of textile exports by 2024-25 and creating an additional 35 million jobs.

At the same time, production of man-made fibre (MMF) has also been on an upward trend. During FY 2016-17, MMF production in India amounted to 1.364 million tonnes; while the production until January 2018 in FY 2017-18 was 1.123 million tonnes.



[Source: India Brand Equity Foundation (IBEF)]

### Growth driver

- Increase in domestic demand
- Rising per capita income, favourable demographics and a shift in preference to branded products
- Improvement in quality
- Rising government focus to support the textile industry
- Favourable trade policies

### Indo Rama Synthetics (India) Limited (Indo Rama)

Indo Rama Synthetics Ltd is India's largest dedicated polyester manufacturer. Incorporated in 1989, we have an integrated production facility in Butibori, near Nagpur, Maharashtra. Our large product gamut comprises of Polyester Stable Fibre (PSF), Polyester Filament Yarn (PFY), Draw Texturised Yarn (DTY), Fully Drawn Yarn and Textile Grade Chips.

We have an annual production capacity of supreme quality products at 610,050 tonnes. We are also one of the most geographically-diversified producers of spun yarns in the world. Our presence is prominent and ever-growing across major global geographies like USA, France, Germany, Turkey, Russia and Japan, among others.

### Our core strengths

- Over three decades of rich industry experience
- One of India's most cost-efficient polyester manufacturers
- Well-defined quality and process management system

- Technological excellence
- Global presence
- Enduring and stable relationship with clients

### Production and sales performance

| Particulars                                     | FY 2016-17 | FY 2017-18 |
|---|------------|------------|
| Total revenue from operations (INR in million)* | 27,011     | 23,137     |
| Total exports (INR in million)                  | 5,736      | 4,186      |
| Electrical power (MWPH)                         | 28.48      | 23.49      |
| Polyester Staple Fibre (TPA)                    | 1,69,043   | 1,25,381   |
| Polyester Filament Yarn (TPA)                   | 1,45,429   | 1,16,135   |
| Draw Texturised Yarn (TPA)                      | 92,468     | 83,167     |
| Polyester Chips (TPA)                           | 1,471      | 1,162      |

\*Total revenue from operations for FY 2016-17 and 2017-18 are not comparable since the sales for FY 2017-18 are net of GST

### Financial performance (INR in million)

| Particulars              | FY 2016-17 | FY 2017-18 |
|--------------------------|------------|------------|
| Total income*            | 27,296     | 23,174     |
| EBIDTA                   | 238        | 602        |
| PBT                      | (1,380)    | (1,249)    |
| PAT                      | (842)      | (820)      |
| Book value per share (₹) | 33.05      | 27.64      |
| Earnings per share (₹)   | (5.53)     | (5.45)     |

\*Total revenue from operations for FY 2016-17 and 2017-18 are not comparable since the sales for FY 2017-18 are net of GST

### Raw material security

For the polyester industry, the main raw materials are Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). These are derivatives of the petrochemical industry. Any change in crude oil price affects the prices of PTA & MEG.

During the year under review, the price of Brent crude varied between US\$ 47 per barrel and US\$ 69 per barrel. This led to volatility in the prices of Paraxylene (PX), PTA, as well as MEG. The price of PX varied between US\$ 792 pmt. to US\$ 968 pmt.

**Purified Terephthalic Acid (PTA):** The PTA price varied between US\$ 613 pmt to US\$ 773 pmt. The increase was due to shutting down of inefficient PTA capacities in China and elsewhere, as well as good performance by the downstream polyester industry. Tightening of the PTA market also resulted in increase in the average PTA-PX Delta to US\$ 89 pmt. from about US\$ 68 pmt. in FY 2016-17.

The demand-supply situation of PTA in India is relatively balanced at present, but it may become tight, going forward, due to delay in commissioning of the JBF PTA project.

**Mono Ethylene Glycol (MEG):** The MEG price varied between US\$ 718 pmt. to US\$ 1021 pmt. The MEG-Ethylene Delta increased to US\$ 209 pmt. from US\$ 83 pmt. in FY 2016-17. Significant increase in price of MEG as well as MEG-Ethylene Delta took place, due to tightness in the MEG market (led by shutdowns at plants in the Middle East and elsewhere) as well as speculative tendencies in China.

### Power business

Indo Rama's captive power plant (CPP), complete with coal-based thermal power of 40 MW capacity and 31.08 MW FO-based DG capacity, is sufficient to meet the Company's demand. The coal-based thermal power source enables an uninterrupted power supply for processes and production. The DG-based power sets are used sparingly to meet contingencies and emergencies. The Company's combined power generation capabilities are integrated into a common power supply pool, wherefrom the required amount of power is fed to different sources for captive power consumption.

The CPP also caters to the demand of processed DM water and steam, through extraction from turbines to production facilities. We import cheaper power by open access on available opportunities during ASD of power boilers and TG sets as well as in off-peak hours.

We have classified various risks and their mitigation process:

| Risks   | Mitigation measures  |
|---|--|
| <b>Cost Risk</b><br>Cost of raw materials fluctuate as polyester making raw materials are crude oil price sensitive | <ul style="list-style-type: none"> <li>■ The Company procures its raw materials locally driving costs down.</li> <li>■ Renegotiating with vendors and alternative sourcing of raw materials has helped the company to optimise cost of raw materials.</li> <li>■ Moreover, the Company's energy audits identified key ways to save on energy costs.</li> </ul>   |
| <b>Quality Risk</b><br>A drop-in quality of products may impair the Company's image                                 | <ul style="list-style-type: none"> <li>■ The Company has stout quality measures in place.</li> <li>■ Its fully-equipped laboratory ensures quality of products.</li> <li>■ Our strong technology backup helps in maintaining the quality.</li> <li>■ The company enjoys quality certification – ISO-9001:2008.</li> <li>■ Our fully-equipped quality-control laboratory with contemporary equipment ensures continuous supply of high-standard products.</li> </ul>  |
| <b>Employee Risk</b><br>Inability to attract and retain skilled workforce can have a negative impact on our growth. | <ul style="list-style-type: none"> <li>■ Indo Rama follows a uniform and merit-based recruitment process. It is sustained by a structured and precise selection procedure to avoid discrimination.</li> <li>■ Impartial assessment process and unbiased performance appraisal help retain skilled workforce.</li> <li>■ The Company encourages people with rewards and recognitions.</li> <li>■ Arranging employee engagement activities to strengthen relationships and develop a pleasant work environment.</li> </ul> |
| <b>Technological Risk</b><br>Technological obsolescence may hurt our operational performance                        | <ul style="list-style-type: none"> <li>■ We have several technical collaborations with technology leaders in Japan, Germany and USA.</li> <li>■ Re-engineering and improvisation helps the organisation in optimisation.</li> <li>■ Continuous investment in technology up-gradations has enabled us to stay at the cutting-edge</li> <li>■ A strong team monitors the entire process to ensure stability.</li> </ul>  |

The Company continues to monitor its power use, internally and externally, to find out avenues for reducing cost of power in polyester production – thereby, contributing to core business profitability.

### People at Indo Rama

Our people are the heart of our business and a critical lever for our growth. We implement a systematic performance management strategy, while investing heavily in human resource initiatives to attract and retain the best talent. In order to maximise employee satisfaction, we provide comprehensive learning opportunities and good long-term prospects. We ensure free flow of knowledge across all tiers of the management, in an endeavour to maintain transparency and a collaborative spirit.

### Risk Management

A comprehensive risk management process is indispensable for survival in today's capricious business world. With rising globalisation, we continuously evolve our risk management system. It is enabling our business to achieve its strategic objectives; and deliver sustainable, long-term growth and a commitment to responsible business practices. Our risk management system is prudently decentralised to facilitate risk mitigation at transaction levels.

| Risks  | Mitigation measures   |
|--|---|
| <b>Customer Risk</b><br>Inability to reach demand pockets and not catering to evolving needs may have a detrimental effect | <ul style="list-style-type: none"> <li>■ We maintain a strong sales and marketing team to increase market penetration.</li> <li>■ Indo Rama takes various measures to increase customer satisfaction.</li> <li>■ The marketing department tries to maintain long-term relations with customers to ensure repeat business.</li> <li>■ Market trends are analysed to derive demand trends for customers.</li> </ul> |
| <b>Competition Risk</b><br>Competition from other players might affect business.   | <ul style="list-style-type: none"> <li>■ We are widening customer base and catering to specific needs to gain customer trust</li> <li>■ With an expanded value-added product portfolio, we now can address a broader client base.</li> </ul>  |
| <b>Forex Risk</b><br>Volatility in global currencies can impact profit margins.  | <ul style="list-style-type: none"> <li>■ Maintaining an equilibrium between exports receipts and import payments, create a natural hedge against currency fluctuations affect.</li> <li>■ We encourage forward contracts to safeguard against currency volatility.</li> </ul>   |

## Safety, health and environment

At Indo Rama, we believe that an organisation's sustainability is directly proportional to the health, safety and environment management. We endeavour to demonstrate environmental and social responsibility at every step.

We are devoted to benefit communities – workforce, public and environment. Our safety, health and environment objectives include complying with all applicable laws relevant to the industry. The management believes in sharing responsibility throughout the hierarchy in conforming to the existing laws. Furthermore, we believe in enriching the well-being aspects of people around our facilities.

### Safety

Safety of our employees is our foremost priority. We abide by all statutory compliance as per Factories Act 1948, Maharashtra Factories Rules 1963 and Maharashtra Fire Prevention and Life Safety Measures Rules. There is a continuous effort by the senior management to create awareness on fire and safety among employees, including their family members and contractor workers.

- No major fire incidents took place in the reporting year.
- Hundreds of our people participated, on the occasion of our safety month, in different competitions; numerous prizes and certificates were distributed to encourage safety culture at work place.
- There is a well-defined Emergency Management Plan to tackle any major emergency inside and outside plant premises.
- We conducted mock drills on various emergency scenarios to ensure emergency alertness; and imparted fire and safety training to our employees including our one-time contract workers.

- We conducted awareness programmes for family members of company employees on the subject of LPG safety, among others.

### Health

Indo Rama regularly organises health camps, as part of its programme to improve and maintain regional healthcare facilities. In FY 2017-18, Indo Rama's health camps and awareness programmes touched over 1,800 lives. Listed below are key initiatives undertaken during the same period:

- Conducted several campaigns for diagnosing common diseases like dengue, swine flu, hypertension, ophthalmological ailments and gynaecological disorders, among others
- Arranged for medical examination of school children from grades six through nine; the programme was conducted in the IRA School, Nagpur
- Organised workshops in Nagpur, conducted by reputed orthopaedic surgeons and urologists
- Celebrated World AIDS Day and organised numerous HIV/AIDS camps for voluntary testing under ELM throughout the year
- Organised a blood donation camp at our site health centre
- Conducted motivational programme on topics like power of mind, positive thinking etc.
- Organised spiritual and motivational programmes on topics like work-life balance and parenting in Nagpur, conducted by Swami Gnanvatsal of Swami Narayan Mandir
- Conducted lectures on first aid for employees and contractual workers from various departments

- Organised a programme on lifestyle modification for employees in Nagpur, conducted by Dr Varun Bhargava of Care Hospital

### Environment

At Indo Rama, we adopt several measures to maintain ecological balance in and around our production facilities – particularly with regard to solid hazardous waste management. Polymer and fibre wastes are sold to authorised parties for reuse and we ensure that hazardous wastes reach the registered recyclers. In FY 2017-18, we sustained our efforts to protect the environment in the following manner:

- Reduced hazardous waste quantity, as compared to last financial year
- Increased waste water distribution for recycling waste water through the Common Effluent Treatment Plant (CETP)
- Used waste water in sprinklers systems for fly ash and suppressed dust
- Celebrated World Environment Day on 5th June and organised plantation activity at our premises
- Constructed new rain water drain to avoid rain water clogging in neighbouring factories
- Recycled waste water using the RO plant and converted waste water to raw water
- Continued the rain water harvesting system at the CPP Plant
- Used gravity channels for sewage water at the staff colony and plant, reducing pumping cost
- Conducted internal audits of Environmental Management Systems (EMS)

### Information Technology (IT)

#### Note on IT

As per the Govt notification the GST, was rolled out at Indo Rama, on 1st July 17. The necessary configuration was done in SAP system by the Accenture, IT team and it was successful roll out. Further E-way bill generation for the GST system was configured as per the direction of the Indian Govt.

New IBM servers ( P8 824 ) for SAP functional bought and were replaced with the Old IBM servers which have reached end of life. All historical data from the old server were also migrated successfully to the new servers.

Other important control like FIFO in export dispatch and Bar coding in case of PSF, Full pallets sales restriction process also configured for DTY product.

### Internal controls and their adequacy

Indo Rama has a robust internal control system in place designed to achieve efficacy of systems, processes and controls. Internal audit is carried out by an independent agency and internal enterprise risk management team. All the major areas and processes are covered in the review plan, drawn in consultation with the senior management. Standard operating procedure compliance and management-approved policies are reviewed and areas of improvement, if any, are identified. Internal audit process verifies whether all systems and processes are commensurate with the business size and structure. Adequate internal control systems safeguard the assets of the company with timely identification and intervention to assuage risks. The internal audit report is discussed with the senior management and members of Audit Committee to keep a check on the existing systems and take corrective action to further enhance the control measures.

### Statutory compliance

The Chairman and Managing Director makes a declaration at each Board Meeting regarding the compliance with the provisions of various statutes, after obtaining confirmation from all the units of the company. The Company Secretary ensures compliance accordance to SEBI regulations and provisions of the Listing Regulations.

### Cautionary statement

The Management of Indo Rama has prepared and is responsible for the financial statements that appear in this report. These are in conformity with accounting principles generally accepted in India. The Management also accepts responsibility for the preparation of other financial information that is included in this report. Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. The Management has made these statements based on its current expectations and projections about future events. Wherever possible, it has tried to identify such statements by using words such as 'anticipate', 'estimate', 'expect', 'project', 'intend', 'plan', 'believe' and words of similar substance. Such statements, however, involve known and unknown risks, significant changes in the political and economic environment in India or key markets abroad, tax laws, litigation, labour relations, exchange rate fluctuations, interest and other costs which may actual results to differ materially. The management cannot guarantee that these forward-looking statements will be realised, although it believes that it has been prudent in making these assumptions. The Management undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.