

Forward Looking Statements

Statements in this Management Discussion and Analysis of financial condition and results of operations of the Company, describing the Company's objectives, expectations or predictions may be forward-looking within the meaning of applicable securities laws and regulations. Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company assumes no responsibility to publicly amend, modify or revise forward-looking statements, on the basis of any subsequent developments, information or events. Actual results may differ materially from those expressed in this statement. Important factors that could influence the Company's operations include Government's strategy relating to acquisition of naval platforms, changes in Government regulations, determination of tariff and such other charges and levies by the regulatory authority, changes in tax laws, economic developments within the country and such other factors globally.

The financial statements are prepared under historical cost convention, on accrual basis of accounting, and in accordance with the provisions of the Companies Act, 2013 (the "Act") and comply with the Accounting Standards notified under Section 133 of the Act. The Company has used estimates and judgments relating to the financial statements on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the state of affairs for the year.

The following discussions on our financial condition and result of operations should be read together with our audited consolidated financial statements and the notes to these statements included in the Annual Report.

Unless otherwise specified or the context otherwise requires, all references herein to "we", "us", "our", "the Company", "Reliance", "RNEL", "Reliance Naval", "RNAVAL" are to Reliance Naval and Engineering Limited and / or its subsidiaries and associates.

About Reliance Naval

Reliance Naval and Engineering Limited (formerly Reliance Defence and Engineering Limited) has the largest engineering infrastructure in India and is one of the largest in the world. RNAVAL is the first private sector company in India to obtain licence and contract to build warships.

RNAVAL operates India's largest integrated shipbuilding facility with a Dry dock admeasuring 662 M x 65 M. The facility houses a modular shipbuilding facility with capacity to build fully fabricated and outfitted blocks. The fabrication facility is spread over 2.1 million sq. ft. The shipyard has a pre-erection berth of 980 meters length and 40 meters width, 2 Goliath cranes with combined lifting capacity of 1,200 tonnes, and an outfitting berth of 780 meters.

On September 4, 2018, IDBI Bank in its capacity of financial creditor had filed a petition under the Insolvency and Bankruptcy Code 2016 (the "IBC" / "Code") with the Hon'ble National Company Law Tribunal, Ahmedabad (the "NCLT") against Reliance Naval and Engineering Limited ("the Company").

Subsequently, pursuant to the meeting held on March 13, 2020, the Committee of Creditors (the "CoC") has replaced the existing IRP with Mr. Sudip Bhattacharya as the Resolution Professional ("RP") for the Company. Upon the application filed by CoC, the

NCLT has approved the appointment of RP vide its order dated 5th May, 2020.

Under the IBC proceedings, the powers of the board have been suspended with effect from January 15, 2020. The powers of the Board of Directors are to be exercised by the RP.

The NCLT order also provided for a moratorium with effect from January 15, 2020 till the completion of the CIRP or until it approves the resolution plan under section 31(1) or passes an order for liquidation of the Company under Section 33, whichever is earlier. Currently, the Company is under CIRP.

Industry Scenario

Defence Shipbuilding

The indigenization of India's defence production industry has always been a priority for the Government. To enhance defence production many policy level changes have been brought in, which encouraged participation of private sector, including MSMEs; and provided impetus for private companies to design and construct defence platforms. However, these policies have not led to any significant increase in shipbuilding orders for the private sector, as many of these orders have gone to PSUs/DPSUs on nomination basis.

However, with the Ministry of Defence likely to issue RFPs for multiple types of platforms, the defence business is looking up. The current size of the Indian Naval fleet is around 132 vessels, 220 aircraft and 15 submarines. There are 32 vessels that being built, or are contracted to be built, in private and public shipyards in India. By 2050, the Navy aims to have 200 ships, 500 aircraft and 24 submarines.

Commercial Shipbuilding

The commercial shipbuilding industry continues to be impacted by the Global slowdown with the Global Active Fleet growing by only 3% last year.

The three Asian shipbuilding giants, viz., China, South Korea and Japan, representing almost 95% of the global order book by deadweight, continued to fight fiercely for market share. In 2018, China consolidated its top position with a 43.1% market share. In second place Korea increased its market share to 27.5%, while Japan slipped back to 24.0% in third place. The 'rest of the world' (RoW) and Europe registered a marginal 3.8% and 1.6% share of the global market respectively.

Further, the Maritime Trade growth through Dry bulk, Tankers, & Container throughput dropped in 2018, in contrast to growth in 2017.

Thus, the Indian private shipbuilding industry is going through a prolonged stressed situation, with the result that two of the large private sector shipyards are in the process of liquidation, and the rest are operating at sub optimal levels of capacity utilization.

This has led to rethinking of the product mix, encompassing more verticals in the shipbuilding & Ship repair sector for viability of the shipyards in the private sector, especially with large capacity such as in case of this Company.

The Company is also facing several challenges which are impacting its operations. There is an acute cash flow crunch as the expected Debt Resolution is yet to be actualized. This is impacting the progress of the existing projects leading to extended timelines

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and thereby leading to erosion of confidence amongst clients. The CIRP process has commenced and expected to be over by end December 2020

Indian Shipbuilding

The Shipbuilding industry is critical to India's strategic and economic interests and is characterized by high growth potential due to its multiplier effect on the economy. Shipbuilding has spin offs to other industries, including steel, engineering equipment, port infrastructure, trade and shipping services. Further, shipbuilding is a labour intensive industry with tremendous indirect potential in employment generation and contribution to GDP through high contribution from other industries.

Development of Indian Shipbuilding industry is no longer an option, but a strategic imperative as it is both an Economic Multiplier (11.2 times) through investment in the downstream Industry as well as an Employment Generator being a labour intensive industry and has a multiplier effect of 6.4 times on generation of employment in the entire value chain. Consequently, it provides livelihood for 32 persons for each Shipyard employee.

India has about 8,000 km long coastline, around 30 shipyards, 12 major ports and 200 ports under its jurisdiction. For a country that is predominantly peninsular with a massive coastline and about 1200 islands, exploitation of India's shipbuilding capabilities have not been in line with development in other sectors. India's long coastline acts as a strategic geographic advantage for the defence of the country. In order to be a maritime power, the defence sector needs state-of-the-art ships and naval forces. The Ship-building industry is intrinsically linked to defence of the country.

Apart from the construction of defence vessels of Indian Navy and Coast Guard, shipyards also contribute to the other commercial areas of oil and gas security, food and commodity security and commercial transportation. The changes in the ship-building activity have a cyclical and direct effect on other sectors as well.

The growth of shipbuilding is vital for Indian Economy and National Security because of a consistent growth in sea trade and the need to safeguard strategic sea lanes of communication. While Shipping provides global interconnectivity between the producers, manufacturers and markets all across the globe and Warships being essential assets, to safeguard the security of the sea lanes and coastlines from a national security perspective, there are emerging areas in the inland water navigation, coastal navigation (such as Sagarmala projects) and offshore Oil & Gas fields which would provide high employment opportunities and growth of GDP for the nation. To realize its growth potential, the sector needs to establish and achieve a critical mass. There is a huge scope for development of shipbuilding sector considering the availability of skilled labour and engineering capabilities.

BUSINESS OPPORTUNITIES

Defence Ship Building & Refits:

- **New orders for Defence Shipbuilding:**

In the defence ship production sector RFP's (Request for Proposals), for following projects were issued .

Next Generation Missile Vessel (NGMV),

Air Cushioned Vessel (ACV),

Diving Support Craft (DSC),

Survey Training Vessel (STV),

Fast Patrol Vessel (FPV),

Survey Vessel (SV),

Multi-Purpose Support Vessel (MPV),

High Speed Landing Craft (HSLC) and

Next Generation Offshore Patrol Vessel (NGOPV).

The Company has responded for some of them. However, company's offers were found meeting technical parameters but failed meeting financial criteria.

With regard to six nos Conventional Submarine Project (P75 I), Expression of Interest (EoI) issued by IHQ MoD (N) to foreign collaborators having design and construction experience and to Indian Shipyards during Q1/Q2 FY 20. IHQ MoD (N) has short listed ThyssenKrupp Marine Systems (Germany), Naval Group (France), and Rubin Design Bureau (Russia) as foreign partners and Mazagon Dock shipbuilders and L&T as Indian shipbuilders. EoI submitted by RINAVAL did not meet financial requirement stipulated for the project.

- **Repairs and Refits of Defence Ships:**

In case of the refit of defence ships there is huge demand due to limited availability of ship repair facility such as Dry docks, ship lifts and floating docks in the country. The majority of the PSU shipyards have over utilised facilities with new building activities and as a result there is a huge backlog of ship refits in the Indian defence forces. There are nearly 370 vessels operating for defence and para defence in India which requires refits of minimum period of 45 to 90 days. This entails a huge segmental upgradation requirement if the country has to sustain the health of its fleet. Ship repairs being applicable for maintenance of existing ships, require extensive ship repair facilities for multiple areas of engineering such as hull repairs, system repairs, electrical repairs, instrumentation, machinery repairs, joinery repairs, domestic system repairs etc. over and above the requirement of dry dock / shiplift/ floating dock for underwater hull and machinery maintenance.

Current orders being executed for Defence Shipbuilding:

New Construction

RINAVAL is currently engaged in construction of twenty ships for Indian Navy and Indian Coast Guard.

- Five Naval Offshore Patrol Vessels for Indian Navy (NOPV), and
- One Coast Guard Training Ship (CGTS) and Fourteen Fast Patrol Vessels (FPV) for Indian Coast Guard.

Current state of Projects

- The first NOPV has been launched and is currently undergoing trials before delivery; the second NOPV has been launched and is in advanced stage of systems integration. The other three NOPVs are under different stages of erection and assembly.
- Substantial progress has been made on CGTS and it is being readied for Basin trials
- Construction of three FPVs are at an advanced stage

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- Major confidence building measures undertaken amongst Employees, Customers, Suppliers, and Government Authorities.
- Positive employee relations and engagement levels

The customers have indicated certain reservations regarding continuation of orders in view of the delays in delivery and no definite commitment of completion schedule. The matter is expected to be resolved during CIRP process.

Ship Repairs

The Company with its world class infrastructure has a completed multiple repairs and refits of Naval Ships of different types and is well equipped to undertake any repair requirements of Indian Defence Forces.

Overall Review

Reliance Naval is India's leading private sector Naval shipbuilding Company, with aggregate revenues of about ₹ 9,920.39 Lakhs and gross fixed assets of ₹ 6,36,702.11 Lakhs. The highlights of the performance of the Company during Financial Year 2019-20 are furnished hereunder:

- Total income of ₹ 9,920.39 Lakhs
- Net loss of ₹ 1,62,126.11 Lakhs

During the financial year, the interest expenditure increased to ₹ 1,32,737.46 Lakhs as compared to ₹ 1,26,672.73 Lakhs in the previous year. Cash loss for the year was ₹ 1,48,063.22 Lakhs as compared to ₹ 1,28,870.98 Lakhs in the previous year. Net loss for the year was ₹ 1,62,126.11 Lakhs as compared to ₹ 10,48,116.68 Lakhs in the previous year. The capital expenditure during the year was ₹ 10,833.84 Lakhs. Total gross fixed assets increased during the year to ₹ 6,36,702.11 Lakhs, with a negative net worth of ₹ 11,87,952.34 Lakhs.

Resources and Liquidity

The Company strives to maintain a conservative financial profile. The Company's consolidated gross debt at the end of the financial year stood at ₹ 12,09,757.91 Lakhs.

The Company sources funds for its long-term and project related financing requirements from a combination of internal accruals and external sources. The working capital requirements are met through commercial rupee credit lines provided by a consortium of Indian banks.

Key Financial Ratios

Sr. No.	Particular	FY 2019-20	FY 2018-19
1.	Debtors Turnover (Days)	14.56	20.54
2.	Interest Coverage Ratio	(0.17)	(0.06)
3.	Debt Equity Ratio	(1.02)	(1.06)
4.	Operative Profit Margin (%)	(2.02)	(0.06)
5.	Net Profit Ratio (%)	(16.36)	(56.77)
6.	Return on Net worth	(0.14)	(1.02)

Reason for Change in ratios:

Return on Net Worth is changed from (1.02) in Previous Year to (0.14) in current year. For last few years there is a downtrend in the shipbuilding industry globally and no new orders in commercial

ship building and oil & gas sectors are coming to Indian Shipyards, since it is economically unviable. In Indian defence sector also the process of awarding contract has been deferred in respect of many large orders for variety of reasons. This lack of new orders has led to the significant reduction in the Company's current level of operations as compared to its capacity. During the previous year, the Company based on the internal assessment valuation exercise carried out by the independent expert, recommended the impairment of the Property Plant and Equipments and capital work in progress aggregating ₹ 783,304 lakhs with effect from April 01, 2018. Further, with respect to certain cases of advances, receivables and obligations, the company had carried out the impairment review and even though it is hopeful of favorable outcome, provision for impairment aggregating to ₹ 75,326 lakhs had been made, considering the overall circumstances. Since Company's debt resolution plan is under discussion and not yet achieved, therefor, no further exposure is taken by the banks and as a result the Company is not able to take money from client.

Risks & Concerns

Naval Shipbuilding and Repairs

In spite of favorable policy framework in place, the private defence shipyards are grappling with gross underutilization of shipyard capacity. Major Defence shipbuilding programmes are nominated on DPSU shipyards, leaving only low value programmes coming up for competitive bidding. Even for the orders on competitive basis, private shipyards need to compete with DPSU yards that are already facing capacity constraints in executing large order backlog of nominated projects from MoD.

However, in the past few years, Government has initiated many new Defence shipbuilding programmes for Indian Navy and Indian Coast Guard. For effective patrolling of the coastal lines, pollution control and search & rescue operations, Coast Guard needs a large number of additional vessels. The defence business pipeline of ₹ 1,40,000 Cr over the next 12 years with a probability of 20% for Private Sector

Risk Management Framework

The Company has a defined risk policy and risk management framework for all units, functional departments and project sites. This helps in identifying, assessing and mitigating the risk that could impact the Company's performance and achievement of its business objectives. The risks are reviewed on an ongoing basis by respective Business Heads and Functional heads across the organization.

Adequacy of Internal Controls

The Company has an adequate system of management supervised internal financial controls which is aimed at achieving efficiency in operations, optimum utilization of resources, and compliance with all applicable laws and regulations. The internal financial control mechanism comprises a well defined organization structure, pre-determined authority levels with segregation of duty, risk assessment and management framework. The Company's manufacturing, health and safety policies and standard operating procedures are well documented and have various ISO and OHSAS certifications. The procurement and operational maintenance activities are planned well in advance to avoid any possible risk of late delivery of equipment and materials, delay in attending to maintenance needs, etc. The

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Company stores and maintains on a regular basis, all the relevant data and information as a back up to avoid any possible risk of losing important business data.

Professional internal auditor review the systems and processes of the Company in coordination with Management Team and this is helpful in providing independent and professional opinion on the internal control systems. A qualified and independent audit committee of the Board reviews the internal audit reports, adequacy of internal controls and risk management framework every calendar quarter.

Human Resources

Human Resource at RNaval is a business partner and strategic enabler with complete focus on organizational development and employee engagement. This is largely due to the alignment of HR practices with business requirements and its quick response to challenges. HR is totally committed to the highest standards of corporate governance, business ethics, social responsibility, employee engagement, performance excellence, employee satisfaction with a work environment promoting transparency, meritocracy and ownership.

During the year, the Company has successfully met the manpower skill requirements emerging from our expanding businesses. The manpower as on March 31, 2020 was at 290 across all our businesses.

Performance Management

The cornerstone of a highly transparent and merit based performance management system at Reliance Naval is its practice of innovation and continual improvement of the processes that evaluates, acknowledges and appreciates the employee's performance. The successful implementation of 'Share, Outperform, Understand and Listen' (SOUL) initiative enhanced employee engagement and performance excellence. The Company's reward and recognition policy, compensation structure and employee engagement policy has been benchmarked to industry standards. Special retention plans are formulated to retain highly competitive talent. A comprehensive nonmonetary reward and recognition policy encourages and rewards outstanding contributions by individuals and teams. Initiatives of 5S at the shop floor levels have contributed to high

levels of motivation at the frontline levels.

Employee Relations and Welfare

The Company ensures health, safety and welfare of its employees with a robust foundation of policies and processes. The Company has provided extensive practical training on safety and undertaken a large number of safety measures like job safety assessment and adopted safe construction techniques at project sites. Throughout the year, the Company organized several medical camps, sports and cultural activities for the employees and their families. The Company has established proactive, harmonious industrial relations and inclusive practices with all employee bodies.

The shipyard has state-of-art Center of Excellence which provides training, certification from international classification agencies, for over 80 trainees simultaneously.

It is actively driving 'Skill Development' and 'Employment Generation' programs, to meet its skill requirements as well as enhance the growth and development in the extended locality. The objective of these programs has been to enable large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood.

However, we had realized that very few women are entering in the technical. Engineering fields, probably due to lack of Industry demand for them. We feel that this is shortsighted and selective discrimination, as they are no less than the men. There is an urgent need to actively promote women participation in industrial trades like Fitter, Welder, Mechanic, Fabricator, Machinist, Electrician, Blaster/Painter, etc. This will further contribute to their economic growth and creation of an Empowered India through Womanpower.

Project Shakti was started by Reliance Naval to cater to this need, increase the availability of trained and certified technical resources by encouraging girls to take up technical fabrication roles, create a repository of professionally trained, certified and employable Woman-power in Reliance Shipyard, Gujarat, together with economic up-gradation of their families.

Project Shakti has rolled out the two batches of trained trades-women, who have already been productively engaged in the Pipe-spool fabrication Shop at the shipyard.