
MANAGEMENT DISCUSSION AND ANALYSIS REPORT

ANNEXURE II TO BOARD'S REPORT

INTRODUCTION

The Company is engaged in the business of manufacture of power driven pumps and industrial valves. Castings are mainly produced for captive consumption.

INDUSTRY STRUCTURE AND DEVELOPMENT

General

As per world bank report, Global economic growth for 2018 is estimated to be 3% as economic slack dissipates, monetary policy accommodation in advanced economies is removed, and global trade gradually slows.

In India, growth has accelerated, driven by an upswing in consumption, and investment growth has firmed as the effects of temporary factors wane.

Pumps and valves industries

Growth is witnessed in certain segments of Pumps and Valves industries in 2018 compared to 2017. Healthier order inflows provide prospects for growth in upcoming year.

OPPORTUNITIES AND THREATS

The industry offers varied opportunities for the company to maintain growth. The Company continues to take efforts to identify opportunities in various types of products, government initiatives, and competitive advantage and deploys efforts and resources that may be required.

The company constantly monitors the threats from competition, industry, product life cycle, raw material costs and takes steps to maintain/ enhance existing competence.

SEGMENTWISE PERFORMANCE (Consolidated)

During the year under review, pumps and related spares worth ₹ 8,106 Million (Previous year ₹ 7,118 Million) and valves and related spares worth ₹ 1,557 Million (Previous year ₹ 1,473 Million) were sold.

Out of the above, export of pumps, valves and their spares in terms of value were ₹ 1,521 Million (Previous year ₹ 1,150 Million).

OUTLOOK

The Company expects the market for pumps, valves and services to grow reasonably in line with general industrial outlook. The export sector is also expected to grow moderately.

RISKS AND CONCERNS THE MANAGEMENT PERCEIVE

The competition is expected to be more aggressive leading to price pressures. Uncertainty in global economic growth is expected to impact the growth rate in India and consequently the Company's operations.

The growth in the industrial sector depends on government policies, better infrastructure, removal of labour market rigidities and growth in agricultural sector would depend on favourable monsoons and effectiveness of implication of Government policies to boost income of farmers.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

Internal Control Systems are implemented:

- To safeguard the Company's assets from loss or damage.
- To keep constant check on cost structure.
- To provide adequate financial and accounting controls and implement accounting standards.

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The system is improved and modified continuously to meet with changes in business condition, statutory and accounting requirements.

Internal controls are adequately supported by Internal Audit and periodic review by the management.

The Audit Committee meets periodically to review -

- Financial statement, with the management and statutory auditors.
- Adequacy/scope of internal audit function, significant findings and followup thereon of any abnormal nature, with the internal auditors.

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL EFFICIENCY

Cost reduction have been achieved in certain areas by implementing efficiency improvement programme within the company.

The following statements cover financial performance review, which are attached to this report.

- a) Distribution of income
- b) Financial position at a glance
- c) Financial summary

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS

Considering the strategic vision and business growth, one of the main challenges for HR was to ensure the competent, engaged and motivated human resources to succeed. Organizational development initiatives have been taken to strengthen the various functions, attracting the talent pool, retention of key employees and maintain healthy work environment. The ongoing initiatives have also been sustained like Leadership Development, Performance Management, Learning and Development, Succession Planning and Health and Safety Management in alignment to the business requirements as per business strategy.

As a part of HR employee engagement programme, the continuation of Employee Engagement initiatives like Communication Meetings, Sports tournaments, Celebration of local festivals, Flexi-Work Hours, Career Development, IT infrastructure development, Reward and Recognitions is ensured. The business initiatives and process improvements have been backed up with focus on open and safe work environment. The employee relations at all the plants continued to be healthy and productive. Productivity linked settlements at two plants has been completed in 2018.

CAUTION

This report is based on the experience and information available to the Company in the pumps and valves business and assumption in regard to domestic and global economic conditions, government and regulation policies etc. The performance of the Company is dependent on these factors. It may be materially influenced by the changes therein beyond the Company's control, affecting the views expressed in or perceived from this report.

On behalf of the Board of Directors,
G. SWARUP
Chairman

Mumbai, 27th February, 2019

MANAGEMENT DISCUSSION AND ANALYSIS REPORT (Contd.)

DISTRIBUTION OF INCOME (SEPARATE)

| | Year ended | | INR Million | |
|---|---------------------|------------|---------------------|------------|
| | 31st December, 2018 | | Year ended | |
| | INR | % | 31st December, 2017 | % |
| 1. Raw Materials/Bought-out components consumed | 5,651 | 50.46 | 4,672 | 46.68 |
| 2. Excise Duty (till 30th June, 2017) | 0 | 0.00 | 249 | 2.49 |
| 3. Employee benefits expense | 1,540 | 13.75 | 1,446 | 14.46 |
| 4. Other Expenses | 2,457 | 21.94 | 2,250 | 22.48 |
| 5. Finance cost | 37 | 0.33 | 35 | 0.35 |
| 6. Depreciation | 397 | 3.55 | 309 | 3.09 |
| 7. Taxation | | | | |
| Current | 367 | 3.28 | 405 | 4.05 |
| Deferred | 9 | 0.08 | (35) | (0.35) |
| 8. Other Comprehensive (Income)/Expense | (10) | (0.09) | (23) | (0.25) |
| 9. Dividend (including tax thereon) | 243 | 2.17 | 230 | 2.30 |
| 10. Retained Earnings | 507 | 4.53 | 470 | 4.70 |
| TOTAL | 11,198 | 100 | 10,008 | 100 |

FINANCIAL POSITION AT A GLANCE (SEPARATE)

| | INR Million | |
|---|---------------------|---------------------|
| | Year ended | Year ended |
| | 31st December, 2018 | 31st December, 2017 |
| CAPITAL | | |
| ASSETS OWNED | | |
| Non-Current Assets | | |
| 1. Property, Plant and Equipment (including Capital Work in Progress) | 3,233 | 3,104 |
| 2. Intangible Assets | 19 | 19 |
| 3. Investments | 63 | 63 |
| 4. Other Non-Current Assets (net) | 154 | 256 |
| 5. Deferred Tax Assets (net) | 161 | 176 |
| Current Assets (Net) excluding borrowings | 3,936 | 3,133 |
| TOTAL | 7,566 | 6,751 |
| FINANCED BY | | |
| 1. Borrowings | 434 | 126 |
| 2. Net Worth* | 7,132 | 6,625 |
| TOTAL | 7,566 | 6,751 |
| *Represented by Equity Share | | |
| Capital | 348 | 348 |
| Other equity | 6,784 | 6,277 |
| TOTAL | 7,132 | 6,625 |
| INCOME EARNED | | |
| 1. Revenue from operations | 10,931 | 9,692 |
| 2. Other Income | 267 | 316 |
| TOTAL | 11,198 | 10,008 |
| INCOME DISTRIBUTED | | |
| 1. Materials consumed | 5,651 | 4,672 |
| 2. Excise Duty (till 30th June, 2017) | - | 249 |
| 3. Employee benefits expense | 1,540 | 1,446 |

MANAGEMENT DISCUSSION AND ANALYSIS REPORT (Contd.)

| | Year ended 31st December, 2018 | INR Million Year ended 31st December, 2017 |
|---|-----------------------------------|--|
| 4. Other expenses | 2,457 | 2,250 |
| 5. Finance cost | 37 | 35 |
| 6. Depreciation | 397 | 309 |
| 7. Taxation | | |
| Current | 367 | 405 |
| Deferred | 9 | (35) |
| 8. Other Comprehensive (Income)/Expense (net) | (10) | (23) |
| 9. Dividend (including tax thereon) | 243 | 230 |
| 10. Retained Income | 507 | 470 |
| TOTAL | <u>11,198</u> | <u>10,008</u> |

FINANCIAL SUMMARY (SEPARATE)

| | 2018* | 2017* | 2016* | 2015 | 2014 |
|--|--------|--------|--------|--------|--------|
| CAPITAL ACCOUNTS (INR Million) | | | | | |
| Liabilities | | | | | |
| Equity Share Capital | 348 | 348 | 348 | 348 | 348 |
| Other Equity | 6,784 | 6,277 | 5,808 | 5,184 | 4,709 |
| Non-Current Liabilities | 366 | 373 | 370 | 365 | 363 |
| Assets | | | | | |
| Non-Current Assets | | | | | |
| Gross Block | 6,615 | 6,152 | 5,149 | 4,603 | 4,319 |
| Net Block | 3,252 | 3,123 | 2,351 | 2,083 | 2,008 |
| Investments | 63 | 63 | 63 | 63 | 63 |
| Other Non-Current Assets | 520 | 629 | 704 | 492 | 549 |
| Deferred Tax Assets (net) | 161 | 176 | 153 | 128 | 100 |
| Current Assets (Net) | 3,502 | 3,007 | 3,255 | 3,131 | 2,700 |
| REVENUE ACCOUNTS (INR Million) | | | | | |
| Revenue from operations and Other Income | 11,198 | 10,008 | 9,052 | 8,497 | 8,292 |
| Gross Profit before finance cost and depreciation | 1,550 | 1,391 | 1,315 | 1,350 | 1,269 |
| Finance cost | 37 | 35 | 31 | 17 | 22 |
| Depreciation | 397 | 309 | 294 | 278 | 276 |
| Profit before tax | 1,117 | 1,047 | 990 | 1,055 | 971 |
| Profit after tax | 740 | 677 | 654 | 698 | 654 |
| Dividend amount (including tax thereon) | 243 | 230 | 230 | 223 | 229 |
| Retained earnings | 507 | 470 | 387 | 475 | 425 |
| SELECTED INDICATORS | | | | | |
| Return on Capital Employed % | 15.24 | 16.03 | 16.40 | 19.33 | 18.73 |
| Current Ratio | 1.96 | 1.99 | 2.17 | 2.01 | 2.00 |
| Earnings per share | 21.27 | 19.45 | 18.77 | 20.06 | 18.79 |
| Debt equity ratio | 0.06 | 0.02 | 0.01 | 0.00 | 0.05 |
| Book value per share | 204.91 | 190.34 | 176.87 | 158.94 | 145.29 |
| Dividend % | 60 | 55 | 55 | 55 | 55 |
| Fixed Assets Turnover | 3.44 | 3.20 | 3.85 | 4.08 | 4.13 |

* Figures for the years 2018, 2017 and 2016 are as per IND AS compliant financial statements. Previous periods' figures are as per previous GAAP financial statements.