
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

Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand 4% in the year 2021 but still remains more than 5% below pre-pandemic projections. Global growth is projected to moderate to 3.8% in the year 2022, weighed down by the pandemic's lasting damage to potential growth. In particular, the impact of the pandemic on investment and human capital is expected to erode growth prospects in Emerging Market and Developing Economies (EMDEs) and set back key development goals.

In India, the pandemic hit the economy at a time when growth was already decelerating. Output is projected to fall by 7.7% in the year 2021, reflecting a sharp drop in household spending and private investment. The pandemic disproportionately affected activity in the services sector (mainly in urban areas, such as retail), paralyzed consumption, and caused significant unemployment. Recent high frequency data indicate that the services sector recovery is gaining momentum.

Pumps and valves industries

The pump market in India by revenue is expected to grow at a CAGR of over 7% during the period 2021–2026. The demand for pumps is expected to grow at a steady rate due to the increased application of pumps in several end-user sectors.

The increased oil and gas demand and high investments in water and wastewater treatment activities are projected to increase sales substantially. Factors such as the increased focus on energy-efficient products in the water and wastewater industry, the development of generic pharmaceutical production, rapid urbanization, and the rise in massive housing schemes and expansion in infrastructural projects are likely to influence the growth.

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 ₹ 9,570 Million (Previous year ₹ 10,335 Million) and valves and related spares worth ₹ 1,991 Million (Previous year ₹ 2,050 Million) were sold.

Out of the above, export of pumps, valves and their spares in terms of value were ₹ 2,339 Million (Previous year ₹ 2,245 Million)

OUTLOOK

Post the initial lag during the start of the year 2021, 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; provided the pandemic effect is completely over post June 2021.



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RISKS AND CONCERNS THE MANAGEMENT PERCEIVE

Risks to the outlook are tilted to the downside. They include more severe and longer-lasting infection rates from the pandemic, financial and debt distress caused by an abrupt tightening of financing conditions or widespread corporate bankruptcies, adverse effects of extreme weather and climate change, weaker-than-expected recoveries in key partner economies, and a worsening of policy- and security-related uncertainty.

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.

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

The outbreak of pandemic resulted in new roadblocks for the Economy, causing disruptive impact on the way organizations work. Paving the way through the crisis, the Company could effectively continue to work with all the stakeholders. The focus on strengthening the processes of attracting, developing, engaging and retaining the human asset was continued during the year. With the robust systems and processes, an agile and responsive approach, the Company continued its efforts on digitalization, process improvement, employee engagement and improving the work life balance contributing its own share in achieving the business goal and outcome for the Year 2020. The trainee programme augmented with recruitment of experienced talent from the market, enthuse talent with challenging work, market driven remuneration, learning avenues, development opportunities and quality of life is an integral part of our leadership pipeline development process. The Company continued its approach to the management development on the belief that learning initiatives must remain synergistic and aligned to business outcomes. Employee recognition through introduction of recognition platforms across businesses, communication through Town Halls, meetings of young and potential managers with senior leaders, reinforcement of career dialogues and improving goal clarity through the performance management system have all contributed to improving the levels of engagement across the

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Company and creating a strong culture of ownership and accountability. In spite of the Economic slow-down the Company recognized the contribution of the employees through structured compensation revision process. The highest standards of safety and precautionary measures were established, Work from home concept was initiated wherever possible, using the time effectively for skill development of employees through various E- learning Platform, Using the technology enabled solutions for employee connect. This was supplemented with the provision of counselling services, employee wellness programmes, formal-casual connect, internal communication drives across a spectrum of platforms recognizing the role of employees and their contributions. In order to uphold the values of ethical conduct and compliance, the Company ensured all employees followed a detailed and structured training and awareness programme to familiarize themselves with the standards and expectations on ethics. Company remains dedicated to an Employee Relations climate of partnership and collaboration ensuring that operations are cost effective, flexible and responsive. During these difficult times, the Company reached out to the disadvantaged and weaker sections of society and provided assistance through our CSR program. Inspired by this Vision, driven by Values and powered by internal Vitality, we look forward to the future with confidence and stand committed to create a brighter future for all stakeholders.

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.

KEY FINANCIAL RATIOS

Key financial ratios of the Company showing financial performance are as under:

Ratios (Standalone)	Year Ended	Year Ended
	31st December 2020	31st December 2019
1. Debtors Turnover (days)	86	88
2. Inventory Turnover	110	92
3. Operating Profit Margin (%)	11.33	9.94
4. Net Profit Margin (%)	8.12	7.62
5. Return on Net Worth (%)*	11.96	13.09
6. Interest Coverage Ratio (%)**	46.56	26.96

* Return on Net Worth decreased turnover marginally impacted by COVID-19.

** Interest coverage ratio increased due to higher profit and lower finance cost.

On behalf of the Board of Directors,
GAURAV SWARUP
 Chairman

Mumbai, 25th February, 2021

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DISTRIBUTION OF INCOME (STANDALONE)

	Year ended		Year ended	
	31st December, 2020		31st December, 2019	
	₹	%	₹	%
1. Raw Materials/Bought-out components consumed	6,205	50.03	6,983	52.47
2. Excise Duty(till 30th June, 2017)	-	-	-	-
3. Employee benefit expense	1,862	15.01	1,772	13.32
4. Other Expenses	2,336	18.83	2,667	20.04
5. Finance cost	34	0.27	53	0.40
6. Depreciation	418	3.37	457	3.43
7. Taxation				
Current	422	3.40	338	2.54
Tax settlement relating to previous years	190	1.53	-	-
Deferred	(36)	(0.29)	60	0.45
8. Other Comprehensive (Income)/Expense	38	0.31	52	0.39
9. Dividend (including tax thereon)	278	2.24	251	1.89
10. Retained Earnings	657	5.30	675	5.07
TOTAL	12,404	100.00	13,308	100.00

FINANCIAL POSITION AT A GLANCE (STANDALONE)

CAPITAL	Year ended		Year ended	
	31st December, 2020		31st December, 2019	
ASSETS OWNED				
Non-Current Assets				
1. Property, Plant and Equipment (including Capital Work in Progress and RoU assets)		3,421		3,402
2. Intangible Assets		14		16
3. Investments		63		63
4. Other Non-Current Assets (net)		(81)		(16)
5. Deferred Tax Assets (net)		168		119
Current Assets (Net) excluding borrowings		5,479		4,823
TOTAL		9,064		8,407
FINANCED BY				
1. Borrowings		600		600
2. Net Worth*		8,464		7,807
TOTAL		9,064		8,407
*Represented by Equity Share				
Capital		348		348
Other equity		8,116		7,459
TOTAL		8,464		7,807
INCOME EARNED				
1. Revenue from operations		12,081		12,939
2. Other Income		323		369
TOTAL		12,404		13,308
INCOME DISTRIBUTED				
1. Materials consumed		6,205		6,983
2. Excise Duty (till 30th June, 2017)		-		-
3. Employee benefits expense		1,862		1,772

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	Year ended 31st December, 2020	₹ Million Year ended 31st December, 2019
4. Other expenses	2,336	2,667
5. Finance cost	34	53
6. Depreciation	418	457
7. Taxation		
Current	422	338
Tax settlement relating to previous years	190	-
Deferred	(36)	60
8. Other Comprehensive (Income)/Expense (net)	38	52
9. Dividend (including tax thereon)	278	251
10. Retained Income	657	675
TOTAL	12,404	13,308

FINANCIAL SUMMARY (STANDALONE)

	2020	2019	2018	2017	2016
CAPITAL ACCOUNTS (₹ Million)					
Liabilities					
Equity Share Capital	348	348	348	348	348
Other Equity	8,116	7,459	6,784	6,277	5,808
Non-Current Liabilities	462	424	366	373	370
Assets					
Non-Current Assets					
Gross Block	7,482	7,184	6,615	6,152	5,149
Net Block	3,435	3,418	3,252	3,123	2,351
Investments	63	63	63	63	63
Other Non-Current Assets	381	408	520	629	704
Deferred Tax Assets (net)	168	119	161	176	153
Current Assets (Net)	4,879	4,223	3,502	3,007	3,255
REVENUE ACCOUNTS (₹ Million)					
Revenue from operations and Other Income	12,404	13,308	11,198	10,008	9,052
Gross Profit before finance cost and depreciation	2,001	1,886	1,550	1,391	1,315
Finance cost	34	53	37	35	31
Depreciation	418	457	397	309	294
Profit before tax	1,549	1,376	1,116	1,047	990
Profit after tax	973	978	740	677	654
Dividend amount (including tax thereon)	278	251	243	230	230
Retained earnings	657	675	507	470	387
SELECTED INDICATORS					
Return on Capital Employed %	17.46	17.00	15.24	16.03	16.40
Current Ratio	2.01	1.96	1.96	1.99	2.17
Earnings per share	27.96	28.10	21.27	19.45	18.77
Debt equity ratio	0.07	0.08	0.06	0.02	0.01
Book value per share	243.18	224.30	204.91	190.34	176.87
Dividend %	80	60	60	55	55
Fixed Assets Turnover	3.61	3.89	3.44	3.20	3.85