MANAGEMENT DISCUSSION AND ANALYSIS

1) Indian economic scenario and industry outlook

a) Indian economy

India along with China continued to be fastest growing economies in the world. However, there has been slight slow down during the year in the world economy, on the background of rising trade tensions among certain countries.

As per second advance estimate of national income released by Central Statistical Organization (CSO) of Government of India, India's real GDP is estimated to be at 7.0 for FY 2018-19, lower by 20 basis points as compared to FY2017-18. The growth in GDP had been more than 8% in quarter 1 of FY 2018-19 and has moderated in subsequent quarters, mainly due to restricted availability of finance.

b) Commercial vehicle Industry in India and our volumes

We manufacture tippers mainly in Medium and Heavy duty segment of commercial vehicles (M&HCV). We supply load bodies of various types to OEMs, OEM dealers and other customers.

The Industry sale of M&HCVincreased to 2,74,750 units in FY 2018-19 from 2,47,659 units in FY 2017-18, a growth of 10.9%. On the background of stabilization of GST, the increase was mainly driven by strong demand from infrastructure and mining sector, and fleet replacement.

The first two quarters of FY 2018-19 experienced very strong growth on year-on-year basis.

However, the growth rate in the second half of the year moderated mainly due to revised axel norms, liquidity crunch and uncertainties due to upcoming general elections. The availability of credit tightened in the second half due to NBFC crisis led by fall out of IL&FS.

The axle norm increased the freight carrying capacity of medium and heavy commercial vehicles (M&HCV) by 20 per cent that led to lower demand for new trucks. According to research firm ICRA, the demand of cargo trucks started seeing volume contraction post the implementation of revised axel norms whereas the tippers trucks demand remained resilient showed a growth between 40-50 percent in FY 2019.

Our total shipments of tippers, trailers and other load bodies were 9470 units in FY 2018-19 as compared to 5413 units in FY 2017-18.

c) Heavy fabrication

The Company fabricates steel structures and support columns for Power Plants and Electrostatic Precipitator (ESPs) structure for power plant boilers and Ducts and General Fabrication components for power plants.

Considering the acute shortage of working capital faced by the Company and higher requirement of working capital funding in this segment, the Company did not pursue for new orders.

d) Railway wagons

The Company has manufacturing facility for undertaking railway business comprising manufacturing of new wagons, refurbishment of old wagons and supply of assemblies. The company however has not been focusing on this line of business due to financial challenges.

Considering the increase of planned off take in wagon procurement by Indian Railways, there exists an opportunity in the sector.

The Resolution Plan by the lenders, enabled an opportunity to the Company to re-look at this segment.

The company re-registered the wagon manufacturing facility and was qualified for G-105 registration. With this company was able to participate in Indian Railways tender and procured an order of 500 wagons amounting to approximately Rs. 150 crores. The Company was also successful in getting further order from a private leasing company for 55 car carrier wagons in the month of March 2019.

2) **Restructuring of Debt and ownership**

The Company has been facing liquidity crisis. Towards resolution of NPA and revival of the stressed assets, the Company, the lenders, erstwhile promoters and incoming investors, agreed for a resolution plan, which has been implemented upon approval by the shareholders

(For Detailed Discussion please refer Director's Report)

3) **FINANCIAL OVERVIEW**

The following table explains the financial performance for the current fiscal as compared to FY 2018-19

Financial Highlights

(Rs. in Lakhs)

Particulars	YE March 31, 2019	% to net sales	YE March 31, 2018	% to net sales
Revenue from operations	21,579.96	-	9,963.96	-
Less- excise duty	-	-	247.46	-
Net Sales	**21,579.96**	**100.00%**	**9,716.50**	**100.00%**
RM cost and change of inventory	17,794.13	82.46%	7,784.30	80.11%
Employee benefits expenses	679.10	3.15%	495.34	5.10%
Operating and other expenses	1,916.37	8.88%	1,431.37	14.73%
Operating profit	1,190.36	5.52%	5.49	0.06%
Other income	75.91	0.35%	116.43	1.20%
Depreciation and amortizations	1,037.91	4.81%	1,035.23	10.65%
Finance cost	2,214.45	10.26%	2,777.96	28.59%
Exceptional Items- (Gain)/Loss, net	(10,853.47)	-50.29%	-	0.00%
Profit/(Loss) for the Year	**8,867.38**	**41.09%**	**(3,691.27)**	**-37.99%**

The analysis of performance is explained below-

a) **Improved volumes**

The tipper industry witnessed a significant growth fueled by continued infrastructural push by the government. This enabled the Company to get increased share of business from one of its major OEM customer and could achieve 122% increase in net sales. However, the industry demand has started moderating from the second of the FY 2018-19.

b) Increase in material cost

The material cost has increased to 82.46% of net sales in FY 2018-19 from 80.11% in FY 2017-18. This is primarily due to increased OE volumes, where the contribution margin is lower as compared to non-OE volumes.

c) Operating and other expenses

The operating expenses have increased consistent with growth in volumes. Other expenses mainly include selling and general expenses and taxes. The major variations were as follows-

- ❖ Repairs to machinery increased by Rs. 107 lakhs, mainly attributable to towards restoring operating condition for certain machinery items after prolonged shut down.
- ❖ Rates and taxes decreased by Rs. 74 lakhs on net basis. The reduction is attributable to one-time provision for sales tax made in FY 2017-18.
- ❖ Allowance for doubtful debts and advances decreased in FY 2018-19. The provision was made in FY 2017-18, for security deposit, education cess and other receivable which were doubtful of recovery. There are no provisions in FY 2018-19

d) Exceptional Items-

i. As explained in the Directors' Report, the Resolution Plan involving debt restructuring and ownership change was approved and completed in the quarter ended March 31, 2019.

Pursuant to the Resolution Plan, the Company could get partial relief in terms of waiver of interest and principal amount due to the lenders. Also, certain debt was converted by the lenders by the issuance of Non-Convertible Redeemable Preference Shares, which was accounted for as per the Accounting Standard, resulting in the notional gain (to be offset in subsequent years over the tenure of these Preference Shares. The resultant gain on these items amounting to Rs 12,457 lakhs was accounted for as Exceptional Item.

(Refer note 48 to the Financial Statements)

ii. During the year ended 31 March 2019, the Company has undertaken review of certain activities and assets held for the same. The Company has identified certain assets having written down value (WDV) of Rs 1,700.83 lakhs as at 31 March 2019 and included them under 'Assets held for sale' at their estimated net realizable value. The loss of Rs. 1,603.98 lakhs being difference between WDV and estimated realizable value has been recorded under the head 'Exceptional Items'.

(Refer note 36 to the Financial Statements)

4) Major changes in financial position

As explained in the Directors Report, the Resolution Plan has significantly strengthened the equity and there has sizeable reduction in borrowings.

a) **Equity -**

The paid up equity capital has increased from Rs 5453. 97 lakhs as at 1st April 2018 to Rs 8948.26 lakhs as at 31st March 2019.The incoming investors have subscribed to 3,45,39,693equity shares at face value.

(Refer note 16 to the Financial Statements)

b) Other Equity -

The Other Equity(Reserves and Surplus) has increased from negative Rs 12,212 lakhs as on April 1, 2018 to Rs 637 lakhs as at 31st March 2019, representing an increase of Rs 12849 lakhs, which comprises the following.

i) There is a debt settlement of INR 3,983 lakhs against the invocation of pledge of shares which has been considered as deemed contribution from shareholders and being accounted for as Restructuring Reserve.

ii) Total comprehensive income (profit) for the year of Rs 8,866 lakhs, which comprises exceptional items (net gain) of Rs 10,853 lakhs after offsetting loss for the year of Rs 1,987lakhs. The exceptional items comprise-

- ❖ Gain on waiver of towards principal amount of loans - Rs 2,618 lakhs
- ❖ Gain of Rs 3,793 lakhs by way waiver towards interest
- ❖ Credit of Rs 6,046 lakhs, being gain on fair valuation of unlisted Non Convertible Cumulative Redeemable Preference Share
- ❖ Loss of of Rs 1,604 lakhs on plant items held for sale.

(Refer note 17 to the Financial Statements)

c) Borrowings -

The borrowings have decreased by Rs 13,349 Lakh in the process of debt restructuring by the lenders, which mainly includes the following.

i) Waiver towards principal by lenders amounting to Rs 2,618 lakhs

ii) Rs 6,748 lakhs has been converted to unlisted Non Convertible Cumulative Redeemable Preference Share (NCPRS)

iii) Exercise of pledge on equity shares by the lenders resulting in a debt settlement of Rs 3,983 lakhs.

(Refer note 48 to the Financial Statements)

5) Outlook for FY 2019-20 and onwards

Going forward, considering, the improving economic scenario in the long term and Government's ambitious plans to enhance the infrastructure, the commercial vehicle industry and tipper demand in particular is likely to continue with growth momentum.

The underlying demand for commercial vehicles/tippers will be strong, mainly driven by investment in construction of roads/metro and other infrastructure, and expected steps by the government to improve the credit flow.

On the background of mandatory emission norms BS-VI applicable to automobile industry in India from 1st April 2020, there is expectation of increased pre-buying.

Railway segment gives us a big opportunity for growth during the current financial year and with the removal of working capital/funding constraints, the Company is confident of achieving higher growth in the upcoming years.

6) TECHNOLOGY – IT Process and Systems

Over the past 3 years the company has not been able to make adequate investments to upgrade the software or the hardware to keep pace with development and to harness more efficiency in operations. During the next 2 to 3 years, the focus will be on upgrading the IT infrastructure.

Company is under process of implementing new process as well as up-gradation of overall information technology structure to cope up in line with the present market scenario / technology.

7) Corporate governance

The Company believes that corporate accountability and corporate governance enable wealth creation and that the shareowners' participation adds value and often the power of ideas that investors bring outweighs the money they have invested in the Company. The corporate governance practices, as envisaged by the law of the country and regulators, in letter and spirit are the pillars of the business practices at CEBBCO.

The driving forces of corporate governance at CEBBCO are its core values – excellence and customer satisfaction, maximizing long- term value for stakeholders, good corporate conduct and environment-friendly behavior.

8) Risk Management

The management and members of the Board review the business periodically to identify ongoing factors that affect the business and also changes in external environment, which are likely to impact the Company. The management has foreseen certain risks and took steps to mitigate the risks. The following are the key risks and the mitigation approach.

Cyclicality of the commercial vehicle industry - The demand for CEBBCO's products is closely linked to overall industrial growth and is vulnerable to cyclicality in the commercial vehicle industry. In addition to rationalizing the production capacities (as already mentioned), the company is focusing on increasing the revenue from other businesses such as railway wagons, water tankers and load bodies for automotive vehicle used by defense.

Liquidity constraint and finance cost-The Company had incurred significant borrowings for setting up of railway wagon manufacturing facility. Since, the railway wagon business did not materialize in the past years, the existing business had to service the borrowings. The ballooning interest cost burden and downturn in automotive demand in the past, had resulted in significant fund constraints resulting into loss of customer orders and additional cost of procurement.

The Resolution plan, as referred to in the Directors Report and financial statements, has significantly lowered the leverage and decreased the debt servicing and repayment obligation.

Raw material costs – Steel accounts for major portion of the raw material costs. Due to cash flow issues, the Company, at times, is required to buy steel from traders at a price higher than manufacturer. The Company follows a zero-based costing model with steel being a pass through with a lag of a quarter. The company has centralized the steel procurement function with the objective of leveraging the volumes to get better prices and is focusing on other cost control measures.

Competition – The Company depends on load body business from certain OEM customers. These OEMs have developed more than one supplier to minimize their risk. There is risk of change in OEM policy with reference to suppliers. The company follows a policy of working closely with select OEMs to enhance its share of business. Further, the company continues to focus on orders from certain dealers.

Irregular order flows from heavy fabrication business– The Company will get affected in case there are irregular order flows from capital goods industries requiring heavy fabrication. However, the Company's plant is fungible and can be used for the manufacture of other products.

Increase in interest rate/cost: Any increase in interest rate will adversely affect the company. Also funding constraints, at times, compel the Company to discount its receivables at exorbitant cost. This is a fixed cost and any measure taken to mitigate this risk will essentially show results over the medium and long term.. The company is exploring ways and means to tighten its working capital in order lower working capital finance.

Delay in execution of orders

Delays in execution of orders (particularly orders obtained through competitive tenders) can have a negative impact on profitability. The Company continues to monitor closely the execution of orders.

9) Internal control system

The Company has an established and comprehensive internal control mechanism and management structure in place across all locations and business functions that ensure the Company's assets are safeguarded against all and any loss from unauthorized use or disposal.

The documentation of Internal Control over Financial Reporting is in place and the management has undertaken effectiveness test of the system.

Internal Control systems are implemented:

a) To safeguard the Company's assets from loss or damage.

b) To keep constant check on cost structure and process loss.

c) To provide adequate financial and accounting controls for preparation and reporting of financial performance and state of affairs, in accordance with Accounting Standards.

d) To maintain proper accounting record and statutory compliances.

The systematic implementation of Internal Control Systems and policies has resulted in the use of funds in the most efficient and appropriate manner.

10) Internal Audit:

The Company has assigned the internal audit to a leading auditing firm. The internal audits are reviewed by the Audit Committee including implementation status of changes suggested by Internal Auditors

The management and Audit Committee of the Board review the findings and the recommendations of the internal auditors as well as statutory auditors, who are also are empowered by the Board to take up and investigate any matter flagged by the internal audit team.

Cautionary Statement

Statements made in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, and expectations may be "Forward-looking statements" within the meaning of applicable securities laws and regulations. However, actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand-supply and price conditions in the domestic and overseas markets in which the Company operates, changes in Government regulations, tax laws and other statutes and other incidental factors.