MANAGEMENT DISCUSSION AND ANALYSIS

1) Indian economic scenario -

The Indian economy witnessed a gradual slow down during the financial year 2019-20. The impact was further accentuated consequent to outbreak of Corona Virus disease (Covid -19) throughout the world, which compelled the Indian Government to resort to lockdown from mid-March 2020.

It is estimated that as compared to growth of 6.1% for the year 2018-19, the Indian economy grew at 4.2 per cent in 2019-20, and 3 per cent in the last quarter, as the Covid-19 pandemic adversely impacted economic activity in the last month of the fiscal year, especially manufacturing and construction.

The full-year GDP growth is the lowest that India has registered in last 11 years.

Economists expect a massive contraction in the first quarter of 2020-21, due to the two-month lockdown, which is likely to pull down the full-year growth to a 5-7 per cent contraction.

As per data from the Central Statistics Office,for FY 2019-20,manufacturing growth was stagnant at 0.03 per cent.

2) Industry performance

The Company is mainly engaged in manufacture of load bodies for commercial vehicles and railway freight wagons.

a) Commercial vehicle Industry in India and our volumes

We mainly manufacture tippers for Medium and Heavy-duty segment of commercial vehicles (M&HCV) for OEMs, OEM dealers and other customers.

The overall Commercial Vehicles segment's growth declined by 28.75 percent in April- March 2020 as compared to the same period last year. Within the Commercial Vehicles, Medium & Heavy Commercial Vehicles (M&HCVs) and Light Commercial Vehicles declined by 42.47 percent and 20.06 percent respectively, in April-March 2020 over the same period last year.

The change in axle norm in the year 2018-19, increased the freight carrying capacity of M&HCV, by 20 per cent that led to lower demand for new trucks. The implementation of emission norms BS VI from April 1, 2020, restricted availability of finance and slowing economy in the second half of FY 2019-20, had further impact on demand.

Further, in tipper segment, contraction in demand in manufacturing and real estate, had an adverse impact.

Our total shipments of tippers, trailers and other load bodies were 4726 units in FY 2019-20 as compared to 9470 units in FY 2018-19, representing a de-growth of around 50%.

b) Railway wagons

The Company has manufacturing facility for undertaking rail wagon business comprising manufacturing of new wagons, refurbishment of old wagons and supply of assemblies.

Considering the increase of planned off take of wagons by Indian Railways, there exists an opportunity in the sector. In order to encourage goods transportation on rail, the government has taken aggressive policy measures to attract private investment in rail transportation and established dedicated freight corridors. This policy initiative is widely known as 'Special Freight Train Operation' (SFTO). This will change the goods transportation business in India in a big way. In the past, railway focused on passenger and limited goods transportation for coal, food grain, etc. With partial privatization of railway, there will be viable of alternative to road transportation for all type of goods.

The company re-registered the wagon manufacturing facility and was qualified for G-105 registration. Company's wagon siding got approved in Feb 2020. The Company was successful in delivering 63 wagons during the year out of the order of 500 wagons by Indian Railways, by March 2020.

The Company was also successful in getting orders from private wagon leasing companies. The Company has an order of 113 car carrier wagons. The Rail Wagon Vertical, even in pandemic period, has been able to perform well.

The projections for wagons requirement from Indian Railway and private wagon leasing companies are encouraging and we expect to get another order of 500 wagons from Indian Railways and 7-8 more rakes of car carrier wagon order in financial year 2021-22.

The Company plans to add another product, BTAP wagon, which is used mainly in cement industries. We plan to develop the same by next financial year. Overall, with railway freight increasing and mining projects getting opened, we expect to have smooth rise in this segment for coming years

c) Heavy fabrication

The Company fabricates steel structures and support columns, Electrostatic Precipitators (ESPs) structure, Ducts and General Fabrication components for power plants.

The revenue during the year was Rs. 392 Lakhs as compared to Rs Nil for FY 2018-19.

Consequent to restrictions on Chinese imports, Indian companies are expected to increase their order bank, which will benefit this industry. Also enhanced pollution norms and their enforcement goes positive for this segment.

3) FINANCIAL OVERVIEW

Particulars	F. Y. 2019-20	% of Net Sales	F. Y. 2018-19	% of Net Sales
Revenue from Operations	12,574.39	100%	21,579.96	100%
Expenditure				
RM cost and change in inventory	9,982.31	79.39%	17,794.13	82.46%
Employee benefit expenses	901.98	7.17%	679.10	3.15%
Operating and other expenses	1,481.41	11.78%	1,916.37	8.88%
Operating profit (EBITDA)	**208.69**	**1.66%**	**1,190.36**	**5.52%**
Depreciation and amortizations	831.74	6.61%	1,037.91	4.81%
Finance Cost	617.17	4.91%	2,214.45	10.26%
Other income	329.35	2.62%	75.91	0.35%
Loss before tax and exceptional items	**(910.87)**	**-7.24%**	**(1,986.09)**	**-9.20%**
Exceptional Items - Gains net	655.12	5.21%	10,853.47	50.29%
(Loss)/Profit Before Tax for the Year	**(255.75)**	**-2.03%**	**8,867.38**	**41.09%**

i) The bifurcation of revenue is given below:-

Sr. No	Particulars	Amount Rs. In Lakhs
1.	Commercial Vehicle Load Bodies & Components	101,08.33
2.	Railway Wagons	18,54.26
2.	Heavy Fabrication	3,92.08
3.	Others	2,19.72
	Total	**.125,74.39**

ii) The analysis of operating profit is as follows

a) The decrease in commercial vehicle load bodies & components was partly compensated by railway wagon shipments. However, the overall reduction in sales was Rs 90 crores (42%). For railways, the support costs had to be incurred throughout the year, but shipments started in the last quarter.

b) The raw material cost was lower at 79.39% of sales as compared to 82.46% of sales for last year, mainly due to product mix, reduction in steel cost and mainly due to value engineering in material consumption in different products.

c) The employee cost and other expenses are increased as compared to previous year, mainly on account of railway activity.

d) Exceptional Item

During the year the Company has forfeited the 0.0001% Non-Convertible Cumulative Redeemable Preference Shares (NCRPS) due to non-payment of unpaid calls. Consequent to the forfeiture, the Company has recognized a gain of Rs. 655.12 Lakh as 'Exceptional Item' in the financial statement of the current year

e) Finance cost has reduced to Rs 617.17 Lakhs from Rs. 2214.45 Lakhs for last year. The restructuring of debt by the banks during 2018-19, resulted in conversion of part of outstanding debt into Preference shares while a part of outstanding debt was waived by lenders.

4) Borrowings –

As on 31-03-2020, the Company has outstanding term loan of Rs. 2056.39 lakhs and Rs. 1598.21 lakhs by way of cash credit.

In view of lock down, the Company has availed moratorium on repayment of principal amount of term loan as allowed by the banks consequent to RBI policy.

Considering the debt servicing requirement for the year, the Company is reasonably confident of meeting these, subject to unforeseen changes in situation

5) Outlook for FY 2020-21 and onwards

As increase in the cases of Covid-19 globally and in India, there continues to be a high degree of uncertainty on the overall market scenario. At this point, there is no visibility of timeline by which vaccine will be available.

Thus the overall performance will depend on unfolding of economy and restoring of industrial demand.

In the long term, considering the measures taken by the government improving economic scenario and Government's ambitious plans to enhance the infrastructure, the commercial vehicle industry and tipper demand in particular, is likely to gradually increase.

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

6) TECHNOLOGY – IT Process and Systems

During the last 5 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 year company has specifically focused on upgrading the IT infrastructure.

The Company is currently in the process of implementing SAP to replace the legacy ERP system used.

7) Corporate governance

The Company believes that corporate accountability and corporate governance enable wealth creation and that the share owners' 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 tippers 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, heavy fabrication for power plant, water tankers and load bodies for automotive vehicle used by defense.

Raw material costs – Steel accounts for major portion of the raw material costs. 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 tippers and other 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 of 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. 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 an independent 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.

11) Key Financial Ratios (As per IND-AS)

Ratio Descriptions	F.Y. 2019-20	F.Y. 2018-19
PBDIT (EBITDA) as % of net revenue from Operations	1.66%	5.52.%
Loss before tax (before exceptional items) as % of net revenue from Operations	-7.24%	-9.20%
(Loss)/Profit before tax as % of net revenue from Operations	-2.03%	41.09%
Return on Net Worth before exceptional items (%)	-9.54%	-20.72%
Return on Net Worth %	-0.43%	92.50%
Gross Debt Equity ratio	0.22:1	0.24:1
Current Ratio	1.09:1	1.43:1
Interest Coverage Ratio	1.09	0.58
Debtors Turnover	11.13	11.99
Inventory Turnover ratio	3.22	15.01

Note on the Change in Ratios

PBDIT /Operating margin:- During FY 2019-20, raw material consumption has been decreased by 3.07%, employees cost and other operating cost increased by 4.03% and 2.90% respectively. Employees and other operating cost increased as compared to previous year due to rolling out of wagon manufacturing plant.The reduction on overall sales is by 42%, however it has been partially compensated by wagon shipment.The net impact is 3.86 % decrease of PBDIT (EBITDA) as % of net revenue from Operations.

Loss before tax (before exceptional items):- In the previous year debt restructuring scheme was approved and implemented, which resulted in decrease in finance cost by Rs. 1597.28 lakh during the year. Previous year few assets were held for sale resulting decrease in depreciation and amortization by Rs. 206.17 lakhs. The net impact is Rs. 1075.22 lakh (1.96%) decease in loss before tax (before exceptional items).

Return on Net Worth: -Previous year net profit includes notional gain (net) Rs. 108,53 lakhs, resulting decrease by 92.93% return on net worth, whereas during the year return on net worth before exceptional item increased by 11.18% as compared to previous year.

Gross Debt Equity Ratio:-Current year outstanding debts includes Rs. 2056.39 lakh non-current and current long term borrowings as compared to previous year outstanding debts of Rs. 2321.47 lakh non-current and current long term borrowings. The Company is regular in repayment of principal and interest liabilities.

Current Ratio:-Current ratio decreased to 1.09:1 as compared to previous year 1.43:1. During the year Company got sanction of cash credit limit. Current liabilities includes outstanding cash credit balance, as on 31st March, of Rs1598.21 lakh mainly used for wagon manufacturing. The Company is reasonably confident of meeting short term obligations.

Interest Coverage Ratio: -Interest coverage ratio increased to 1.09 as compared to previous year 0.58. The Company have sufficient earning to pay its current interest expense on outstanding debts.

Debtor Turnover Ratio: -Current year debtor turnover ratio is 11.13 as compared to previous year 11.99. The company continues to focus on collection and taking reasonable measures on effectiveness in collecting receivables. Due to pandemic impact at the end of financial period under review, there was delayed collection from debtors.

Inventory Turnover ratio: -Inventory turnover ratio decreased to 3.22 as compared to previous year 15.01 due to increase in inventory on rolling out of wagon manufacturing plant and sudden country wide lock down, by the Government of India, from Middle of March 2020. Inventory includes WIP of Rs 2765.32 lakhs as compared to previous year of Rs .681.09 lakh. The Company continues to focus on optimizing inventory turnover ratio.

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.