

ANNEXURE- IV

MANAGEMENT DISCUSSION AND ANALYSIS REPORT FOR 2020-21

Preface

The Management Discussion and Analysis Report (MDAR) aims to elucidate the developments in the business environment, performance of the company in comparison to last report and the future outlook. MDAR is a part of the Board's Report. The performance of a company is linked with various factors including demand, supply, climatic conditions, economic conditions, political conditions, Government regulations and policies, taxation, pandemic and natural calamities, which are beyond the control of the company and could make a significant difference to the Company's operations. Owing to this, certain statements made in this report pertaining to projections, outlook, expectations, estimates, etc., may eventually differ from actuals.

A. Industry structure and market scenario

India is a developing economy with a large population. The desired economic growth requires continuous investments in new infrastructure, new/large/small cities, machinery and production to employ more people and drive the economy forward.

The inevitable lockdown due to the spread of Covid-19 by the Governments of different countries has made a huge dent in the businesses across the spectrum causing losses and uncertainty in the global economy. Many sectors in India are badly hit by the same and the steel industry is also among the list that had to bear the brunt of the lockdown.

India was in an expansion mode till March, 2020, though the impact of Covid has put India to almost a grinding halt post imposition of lockdowns. The supply side constraints due to inter-state border closures, along with labour shortage and office shutdowns has put the economic cycle to a grinding halt from the month of April 20 which was continued upto June 2020. The weak domestic demand along with large inventory build-up and supply chain bottlenecks resulted into lower production during the 1st half of financial year 2020-21.

In 2020, global crude steel production reached 1,864 million tonnes, down by about 0.9% compared to 2019. However, China, the largest producer of crude steel recorded a growth of 5.2%. Though India's steel production dropped from about 111.35 million tonnes in the year 2019 to 99.6 million tonnes in the year 2020 registering a negative growth of about 10.55%, India maintained its position as world's second largest steel producing country.

During 2020-21, production and consumption of steel was adversely affected by the Covid pandemic and the lockdown necessitated to contain its spread. The cumulative production of finished steel at 94.66 million tonnes was lower by 7.76% over corresponding period last year (CPLY). The consumption during same period at 93.43 million tonnes was lower by 6.73% over CPLY.

During 2020-21, export of finished steel from India at 10.79 million tonnes increased by 29.08% while import at 4.75 million tonnes have declined by 29.77% over CPLY. During the year, import of manganese ore was at 3.95 MT in comparison of 2.84 MT in 2019-20.

National Steel Policy of India, 2017 aspires to achieve 300 million tonnes of steel-making capacity by 2030. This would translate into additional consumption of steel making raw material including iron ore, coking coal, lignite etc. Similarly, ferro alloys are one of the important inputs in the manufacture of steel and the growth of the ferro alloy industry is, thus, linked with development of the iron and steel industry. With abundant resources, there is good potential of growth in manganese ore and ferro alloy industry in India. Of-late, import of manganese ore is increasing due to increase in production of steel as well as less availability of high grade of ore in country.

As per available indicators, the Steel Industry in India is expected to post double digit growth in the coming years which will definitely create demand for manganese ore.

B. SWOT analysis

MOIL's competitive strengths

- o Largest producer of manganese ore with market share (~50%) in the country with large reserves of manganese ore.
- o Holding majority of total demonstrated reserves of high / medium grade manganese ore in the country.
- o Strong financials with high net worth and zero debt.
- o Availability of qualified technically skilled manpower with excellent work culture and peaceful industrial relations.
- o Manganese reserves are in Central Indian Manganese belt, with deposits being in general, of regular shape.
- o Company has got logistical advantage, as all its mines are well connected with State / National Highways. Most of its mines are located with railway network of South East Central Railway and are provided with railway sidings.
- o MOIL continues to be an efficient and environment friendly mining Company.

Weaknesses

- o Delay in obtaining fresh mine leases resulting delay in commissioning of new mines, affects company's expansion/investment plans.
- o As the Company is largely a single product company, any adverse impact on the manganese ore industry will hit the profitability of the Company.
- o MOIL's mines have narrow ore body and hence full mechanization is relatively difficult.
- o The cost of production will also rise due to increasing depth of deposits, revision in wages of regular employees as well as revision in minimum wages for contractual employees.
- o Limited reserves of high grade manganese ore compared to global players
- o Major production of MOIL comes from underground mines, where the cost of production is higher than opencast mines and cost is on increasing trend, the major portion of cost being manpower cost. Any increase in the cost of UG mining would adversely impact margins.
- o Delay in projects, particularly high speed shaft at Balaghat mine, due to prevailing India-China relationship as the shaft sinking work is being carried out by a consortium with a company from China.
- o Timely completion of projects undertaken for development of mines particularly underground mines on schedule time and estimated cost is an innate, as any shortfall in this may affect targeted performance.

Opportunities

- o The Government is committed to attract investments in Indian steel sector from both domestic and foreign sources and facilitate speedy implementation of investment intentions on board, so as to reach desired crude steel capacity level to meet the domestic demand fully and also to ensure easy availability of vital inputs and necessary infrastructure to achieve a projected production as per National Steel Policy.
- o India has set capacity target of 300 million tonnes of crude steel by 2030-31 which will create high demand of manganese ore.
- o MOIL being India's largest manganese ore producer, accounts for about ~ 50% of the country's production. With about 91.29 million tonnes of reserves and resources of manganese ore, it is well positioned quantity wise to capitalize on India's steel demand growth, given its dominant position, medium- to high-grade ore, centrally located mines and strong and expanding customer base.
- o Large demand supply gap in Indian Manganese Ore market presents an opportunity for import substitution.
- o Strong financials, i.e., large cash reserves provide opportunity to go for major investment plans. MOIL has already planned large investments for development of its existing mines which will increase the production and productivity to meet the future requirements of manganese ore. It has also taken decision to expand its ferro alloys business by setting up ferro alloy plants at Balaghat and Gumgaon Mines.
- o In past, an area of 814.71 Ha. was reserved by Maharashtra Government in favour of MOIL for prospecting of manganese ore in Nagpur and Bhandara districts. Recently, after exploration and requisite clearances, environment clearance (EC) has been given in respect of 126.84 HA. area, which is adjacent to MOIL's Gumgaon mine. This will be a new mine (12th mine) of the Company and the first new underground mine since inception.
- o MOIL has signed a detailed MoU with Gujarat Mineral Development Corporation Limited (GMDC), a Gujarat State enterprise on 01.10.2019 to explore the possibility of mining of manganese ore in the State of Gujarat. Exploration by core drilling has already completed and results indicate availability of manganese ore to carry out profitable mining operations. MOIL is pursuing the matter with GMDC and taking all possible efforts in the matter. Final exploration report from MECL is expected in coming month and the company has also in-house started preparing feasibility report. However, due to Covid-19, there has been some delay.
- o Tripartite MoU has also been signed amongst MOIL, Govt. of Madhya Pradesh, M.P. State Mining Corporation Ltd. (MPSMC) for conducting exploration in four districts i.e. Jabalpur, Jhabua, Balaghat, Chhindwara in Madhya Pradesh State. This MoU also envisages formation of a joint venture company with 51 (MOIL):49 (MPSMC) shareholding, for manganese ore mining. In this context, MOIL has signed MoU with National Remote Sensing Centre (NRSC) - a unit of ISRO, Hyderabad to carry out remote sensing study over four districts to delineate the potential Manganese zone within the district. NRSC has submitted report on remote sensing study. Based on remote sensing study, MOIL has carried out geological mapping and field survey within the areas and identified some blocks for exploration. Consequently, MOIL applied for reservation of area to Govt. of Madhya Pradesh for reservation of the area for exploration. Govt. of Madhya Pradesh has reserved 850 Km² and 487 Km² areas in Balaghat and

Chhindwara districts respectively, in favour of MOIL to carry out exploration work. This will enable MOIL take up exploration project in the reserved areas of Balaghat and Chhindwara districts. Applications for other two districts, i.e., Jabalpur and Jhabua, are in process.

- o With vast experience in mining, company may also plan for expansion into other minerals such as new fast growing battery minerals-Lithium, Nickel, Cobalt, EMD, EMM, etc. as per Strategic Management Plan (SMP) of the company. In this direction, MOIL is process of issuing EoI to identify the prospective party/agency that may provide technology / set up the plant. The company is also planning to enhance the capacity of its EMD production to 10000 MTPA by setting up new plant and increasing capacity of existing plant.
- o MOIL is also exploring possibilities of overseas acquisition of mines in order to have a global presence.

Threats

- o Being a mining Company, MOIL is subjected to extensive regulations surrounding health and safety of the people and environment. With constant evolution of regulatory standards and community expectations, the Company is exposed to increased compliance cost and unforeseen environmental remedial expenses. New wage/labour code is to be implemented which may lead to higher compliance burden.
- o Decline in the Import price of manganese ore is the biggest threat as it leads to erosion in the profit margin of the company. The international prices are largely dependent on Chinese demand and availability scenario.
- o China's deceleration, a slowing global economy, and uncertainty surrounding trade policies and the political situation in many regions suggest a possible moderation in business confidence and investment.
- o High dependency on only one sector i.e. steel industry
- o Any delay in regulatory approvals, may also impact long term growth of the company.
- o Higher availability of inventory of manganese ore at international level mainly at Chinese ports affects MOIL's business.
- o Non-renewal of expiring mining leases by the Government.
- o Current prevailing Covid-19 pandemic may affect the production of the Company adversely. If third wave of Covid-19 pandemic comes, it will further impact company's top line and bottom line performance.

C. Outlook

The demand for manganese ore and ferro alloy products depends on the outlook of the steel industry which in turn is dependent on growth of overall economy. The use of manganese in steel is very less in terms of percentage, however, over 95% of the world's production of manganese is utilized in steel making to increase strength of steel, abrasion resistance, hardenability, etc. Accordingly, demand for manganese ore and ferro alloys would increase with production of steel going up.

World Steel Association (WSA) in its Short Range Outlook (SRO) for 2021 and 2022 forecasts that steel demand will grow by 5.8% in 2021 to reach 1,874 million tonnes, after declining by 0.2% in 2020. In 2022, steel demand will see further growth of 2.7% to reach 1,925 million tonnes. The current forecast assumes that the effect of second or third waves of Covid infections will stabilize in the second quarter and that steady progress on vaccinations will be made, allowing a gradual return to normalcy in major steel-using countries.

WSA has also stated that India suffered severely from an extended period of severe lockdown, which brought most industrial and construction activities to a standstill and that the economy has been recovering strongly since August, 2020 much sharper than expected, with the resumption of Government projects and increase in demand. India's steel demand fell by 13.7% in 2020 but is expected to rebound by 19.8% to exceed the 2019 level in 2021. The growth-oriented Government agenda will drive India's steel demand up, while private investment will take longer to recover.

The pandemic of Covid-19 has engulfed the entire world and has posed serious challenges for the health and economic security of millions of people worldwide. Though the Covid-19 pandemic started indirectly affecting the performance of the company from December, 2019 and directly from the last quarter of 2019-20 but it became more serious in the first quarter of 2020-21. Lockdowns declared for Covid-19 mitigation has impacted Company's production in first quarter whereas social distancing and other Covid protocols have impacted the second quarter performance. After partial lifting of restrictions, operating levels started improving resulting in gradually increasing production and sales especially in the fourth quarter of the year. Again, due to surge in Covid cases from March, 2021 onwards in general, and in Maharashtra and Madhya Pradesh in particular, the production and dispatches in April-May, 2021 have suffered. Your Directors have been closely reviewing the impact of Covid-19 pandemic on the Company and taking corrective steps to limit the production/other losses to the bare minimum.

The situation created by Covid-19 continues to hold uncertainties for the future. However, the Board and the Management will do their best to address the same, as the situation evolves, in the best interest of all the stakeholders of the Company.

As per the expert report, in FY22, crude steel production in the country is expected to reach 112-114 million tonnes, growing by 8-9% yoy. The crude steel production is expected to be marginally higher than 2019 when India produced nearly 111 million tonnes of crude steel. Steel demand will be supported by economic recovery, Government spending and enhanced liquidity. The Union Budget for 2021-2022 has a sharp 34.5% yoy increase in allocation for Capex at Rs. 5.54 lakh crore, the thrust being on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, roads, transport and highways would provide impetus to steel consumption which is expected to grow by 10-12% in FY22 to cross 100 million tonnes for the first time ever.

Further, an up-cycle in steel prices is expected to continue in FY22 and stimulus package unveiled by various countries will keep demand for steel high. Absence of China from the world export market is one of the major factor keeping steel prices elevated as maximum import of steel takes place from China. Continued higher demand from China on the back of stimulus package and the country's desire to bring down production levels in 2021 to reduce Co2 levels will be an important factor that will strengthen steel prices. Demand-supply imbalance in the global market will also continue to present export opportunities to domestic players.

In order to meet the requirement of manganese ore in future and maintain market leadership, MOIL has drawn a Strategic Management Plan-2030 (SMP-2030). As per the SMP-2030, the Company has planned to enhance its production to 3.00 million tonnes by 2030. In this direction, the company is focusing on development and mechanization of its existing mines, sinking new shafts and also adding new leases so that the targeted production can be achieved.

Further, domestic requirement of manganese ore has increased substantially to meet not only increased domestic production of steel but also for export of manganese based alloys. This has continuously made India a net importer of manganese ore.

During 2020-21, MOIL has carried out exploratory core drilling of 7517 Mtrs. and has been able to increase its resource base to 91.29 Million MT (as against 90.00 Million MT as on 01.04.2020). Including dumps, the resources are estimated to be 94.36 Million MT as against 93.06 Million MT on 01.04.2020. With this, MOIL is very well positioned to contribute to the India's Steel demand growth given its dominant position, medium to high grade ore reserves, centrally located mines and strong customer ties.

D. Risks and Concerns

Manganese ore industry is linked with steel Industry which is cyclic in nature and has impact on demand of manganese ore. Any slowdown in the demand of steel market and over supply from international market at cheaper rates will adversely affect the Indian steel industry. MOIL is a labour intensive organization. Though the industrial relations have been excellent in the Company, the risk factors associated with labour may always play significant role on its production performance.

E. Segment-wise/product-wise sales performance

During the year 2020-21, net sales of manganese ore increased by 13.42% to Rs. 1177.38 crores against Rs. 1038.07 crores in the previous year. During the year 2020-21, the company sold 12.18 lakh MT of manganese ore in comparison to 11.80 lakh MT in the previous year.

Price as well as demand of ferro manganese in the domestic market was comparatively good in 2020-21. Turnover from manufactured products, i.e., ferro manganese (including slag) and electrolytic manganese di-oxide, during 2020-21 was at Rs. 102.92 crores as against Rs. 60.95 crores in 2019-20 showing an improvement of 69%. Sales quantity of EMD has slightly decreased from 930 MT in the year 2019-20 to 918 MT in the year 2020-21 but sales of ferro manganese has substantially increased from 6,187 MT to 13,367 MT.

F. Production

During 2020-21, MOIL has produced 11.44 lakh MT of various grades of manganese ore as against 12.77 lakh MT in previous year. Spread of corona virus and various restrictions imposed to contain the spread is the main reason for the lower production, which has suffered for more than two months during the year. The production of EMD was 1,070 tonnes as against the 925 tonnes during the previous year. The production of ferro manganese was 8,851 MT as against the 10,421 MT in the previous year. The wind turbine generators have generated 256.14 lakh KwH during the year as compared to last year's 313.06 lakh KwH units.

G. Internal control systems and their adequacy

MOIL has put in place all the necessary internal controls and they are found to be adequate. The Board of the company has also laid down proper internal financial controls. Company is ensuring internal financial controls through SAP, delegation of responsibilities and powers, SoPs, internal audit, internal checks, vigilance, etc.

H. Discussion on financial and operational performance

Financial year 2020-21 was very challenging due to Covid-19 pandemic, which has affected the prices and the availability of ore in the domestic as well as international market. During the year, in spite of these disturbances/restrictions, the company has surpassed its last year's revenue. The financial and physical performance of the Company during the year is given below.

• **Financial performance**

Particulars	Rs. in crores	
	2020-21	2019-20
Revenue from operations	1177.38	1038.07
Other income	102.47	181.11
Total income	1279.85	1219.18
Total expenditure	890.57	782.53
EBIDTA	339.28	436.65
Profit before tax before exceptional item	290.11	340.49
Operating profit before tax and before exceptional item	187.64	159.38
Exceptional item	50.00	0.00
Profit before tax for the year (PBT)	240.11	340.49
Profit after tax (PAT)	176.63	248.22
Total Comprehensive income for the period	187.05	253.56
Dividend (including proposed dividend)	175.62	142.40
Transfer to general reserve	0.00	80.00
Balance of profit carried over	139.90	83.39

- o Total revenue of the company during the year was Rs. 1279.85 crore as against Rs. 1219.18 crore in previous year. MOIL has achieved turnover of Rs. 1177.38 crore, registering an increase of 13.42% in comparison to previous year's turnover of Rs. 1038.07 crore. Despite challenges posed by Covid pandemic and suffering production for more than two months, operating profit earned is Rs. 187.64 crores as against Rs. 159.38 crores earlier year, showing an improvement of 17.73%. PBT for the year was (before exceptional item) at Rs. 290.11 crore as against Rs. 340.49 crore in the previous year, whereas profit after tax (PAT) has decreased from Rs. 248.22 crore to Rs. 176.63 crore in the current year. EBITDA margin of the company has been at 28.82% during the year. Interest income was Rs. 102.47 crore lower than the last year Rs. 181.11 crore, due to lower interest rates during 2020-21.

Key financial ratios

Particulars	2020-21	2019-20
Debtors turnover (Days)	20	12
Inventory turnover (Days)	24	51
Current ratio (Times)	4.68	4.53
Operating profit margin (%)	15.94	15.35
Net profit margin (%)	15.00	23.91
EBIDTA to sales turnover (%)	28.82	42.06
Return on net worth (%)	6.33	8.49

Ratios have been impacted mainly because of Covid-19 on the company's performance as detailed in the report of the Board.

• **Operational performance**

Adverse market conditions during 2020-21 largely impacted the performance of the company. However, turnover and operational profit during current reporting period have surpassed previous year's performance despite adverse situation created by outbreak of corona virus. Considering the stoppage of operations at mines/plants consequent to lock down imposed due to Covid-19 pandemic affecting production for more than two months, the growth in production of 5.14% in manganese ore, 40.59% in EMD and 19.64% in ferro manganese during second to fourth quarter of the year was commendable. MOIL has recorded gross sales of Rs. 1177.38 crores during the financial year 2020-21 as surpassing previous year's sales of Rs. 1038.07 crores of previous year. During 2020-21, your Company has produced 11.44 lakh MT of various grades of manganese ore as against 12.77 lakh MT in previous year. The operating profit also has increased by 17.73% from Rs. 159.38 crore in the year 2019-20 to Rs. 187.64 crores in the year 2020-21.

I. Material developments in human resources, industrial relations front, including number of people employed

MOIL employees are very dedicated and loyal to the Company. The employees in general have remained with the Company through thick and thin. On the part of the management, it is ensuring all-round comfort levels to its employees, including the required training at all levels based on the need. In July 2020, the management and non-executives' Union have signed MoU for wage settlement for next

10 years effective from 01.08.2017 to 31.07.2027. The wages settlement is under consideration at the Ministry of Steel for approval. New wage revision will help further improve the living standards of the employees.

It is worth highlighting that industrial relations have been cordial all along during the year. Issues, if any, are sorted out through bipartite discussions at appropriate forum. The cooperation and support of workmen represented by the employees' Unions in this regard is praiseworthy.

MOIL is targeting to increase its present production to 3.00 million tonnes by 2030. Taking into consideration the country's requirement to cater to increasing steel production and limitations of existing mining areas to increase production beyond a particular limit, the Company has taken initiative to expand its operations beyond present leases and adjacent areas and has also ventured for entry into other States. The company is in the process of acquiring mining leases in other States like Gujarat, Odisha and Rajasthan. MoU has been entered into with Gujarat Mineral Development Corporation Limited (GMDC) for exploration and mining operations. Tripartite MoU has also been entered into amongst MOIL, Govt. of Madhya Pradesh, M.P. State Mining Corporation Ltd. (MPSMC) for conducting exploration in four districts i.e. Jabalpur, Jhabua, Balaghat, Chhindwara in Madhya Pradesh. Recently, the State Govt. of Madhya Pradesh has reserved 850 Km² and 487 Km² areas in Balaghat and Chhindwara districts respectively, in favour of MOIL to carry out exploration work. This will enable MOIL take up exploration project in the reserved areas and applications for other two districts, i.e., Jabalpur and Jhabua, are in process.

The above developments in the company will also require people with specific skills and knowledge in times to come. In order to get people with requisite knowledge and skills, MOIL is imparting effective training to its existing manpower and also resorting to fresh induction as per requirement.

As on 31st March 2021, total employee strength is 5866. Details are in the Board's report.

