MANAGEMENT DISCUSSION AND ANALYSIS REPORT

ANOTHER RECORD-BREAKING YEAR IN A ROW

If the financial year 2017-18 was a breakout year for JTL Infra, financial year 2018-19 has proved to be a blockbuster year for the Company. We have once again achieved the highest ever sales volume during the financial year 2018-19. Revenue from Operations jumped to Rs. 321.86 Crores in FY19 from Rs. 169.74 Crores in FY18. Profit after Tax for the year at Rs. 14.50 Crores increased by 80.41% compared to the previous financial year.

THE ECONOMIC SCENARIO

Global growth, which peaked at close to 4% in 2017, softened to 3.6% in 2018, and is projected to decline further to 3.3% in 2019. Although a 3.3% global expansion is still reasonable, the outlook for many countries is very challenging, with considerable uncertainties in the short term, especially as advanced economy growth rates converge toward their modest long-term potential. With improvements expected in the second half of 2019, global economic growth in 2020 is projected to return to 3.6%. Beyond 2020, growth should stabilize at around 3.5%, bolstered mainly by growth in China and our country and their increasing weights in world income.

The Indian economy started the FY2019 with a healthy 8.2% growth in the first quarter on the back of domestic resilience. Growth eased to 7.3% in the subsequent quarter due to rising global volatility, largely from financial volatility, normalized monetary policy in advanced economies, externalities from trade disputes, and investment rerouting. Further, the INR suffered in the wake of the crude price, and conditions exacerbated as recovery in some advanced economies caused faster investment outflows. Despite softer growth, the Indian economy remained one of the fastest growing and possibly the least affected by global turmoil. In fact, the effects of such external shocks were contained in part by our country's strong macroeconomic fundamentals and responsive policy changes. The improving macroeconomic fundamentals have been further supported by the implementation of reform measures, which facilitated an environment to boost investments and ease banking sector concerns. The RBI has lowered its policy interest rate twice by 25 basis points to 6% during its April 2019 meeting; it was the second straight interest rate cut so far this year. Together, these augur well for a resurgent growth path for the economy.

Although growth projections for India vary for different global economic institutions, all of them predict higher or same growth rates going forward.

India is forecast to become the world's fifth-largest economy in 2019, reaching a total GDP size exceeding $3 trillion, and overtaking its former colonial ruler, the United Kingdom. By 2025, Indian GDP is also forecast to surpass Japan, which will make India the second largest economy in the Asia-Pacific region," it said. It may be noted that our country has already surpassed France to become the sixth largest economy backed by gradual revival in investments, especially with a greater focus on infrastructure development.

Against this backdrop, infrastructure remains a key tool to address developmental gaps as it is considered a catalyst to lift the economy out of the worldwide financial turmoil. Infrastructure combined index measures the performance of eight core industries with aggregate weightage of 40.27% in the IIP i.e., refinery production (28.04%), electricity generation (weight: 19.85%), steel production (17.92%), coal production (10.33%), crude oil production (8.98%), natural gas production (6.88%), cement production (5.37%) and fertilizers production (2.63%). The cumulative growth in the index of eight core industries was 4.1% in 2017-18 and 4.1% year-on-year in Apr-Jan 2018-19.

(Source Tradingeconomics.com / Office of the Economic Advisor to the Govt. of India)

INDUSTRY ANALYSIS

The Steel Pipes and Tubes industry in Our country holds enormous growth potential which is as yet under tapped. It has gathered momentum on the strength of a domestic boom led by infrastructure and significant growth spurts from sectors like Oil & Gas, Petrochemicals, Water, Irrigation, Sewage, Fertilizers, Power and Energy. The steel sector has been an important sector linking economies throughout the world through its central position in global value chains. Excess steelmaking capacity is a global challenge which continues to plague this sector and creates significant difficulties for steel producers in advanced, emerging and developing economies alike. The situation has become particularly acute since 2015. It depresses prices, undermines profitability, generates damaging trade distortions, jeopardizes the very existence of companies and branches across the world and also creates regional imbalances.

Alleviating excess capacity becomes a necessary condition for more stable, profitable & sustainable business and employment conditions. This would also help the industry to face a number of long-term challenges more effectively.

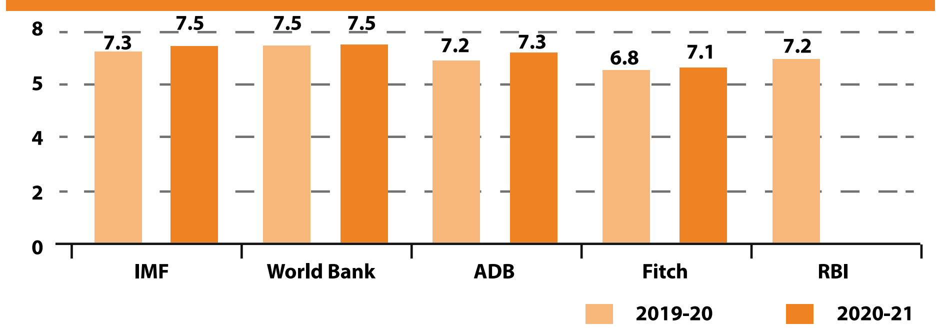
In light of these challenges, G20 Leaders called for the formation of a Global Forum on Steel Excess Capacity (GFSEC) at their summit on 4 and 5 September, 2016, in Hangzhou, China. The Global Forum brings together 33 member economies representing more than 90% of global steel production and capacity.

The World Steel Association (World Steel) forecasts global steel demand will reach 1,735 Mt in 2019, an increase of 1.3% over 2018. In 2020, demand is projected to grow by 1.0% to reach 1,752 Mt.

In 2018, global steel demand increased by 2.1%, growing slightly slower than in 2017. In 2019 and 2020 growth is still expected, but in a less favourable economic environment. 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.

Chinese steel demand continues to decelerate as the combined effect of economic rebalancing and trade tension is leading to slowing investment and sluggish manufacturing performance. Mild government stimulus cushioned the economic slowdown in 2018. In 2019, the government is likely to heighten the level of stimulus, which is expected to boost steel demand.

Growth projections for India (in%)



In 2020, a minor contraction in Chinese steel demand is forecasted as the stimulus effects are expected to subside. ▪ Steel demand in the emerging economies excluding China is expected to grow by 2.9% and 4.6% in 2019 and 2020 respectively.

World Crude Steel production stood at 1789.612 million tonnes during Calendar Year (CY) 2018, an increase of 4.46% over CY 2017 as per data released by the World Steel Association. Chinese Crude Steel production reached 928 million tonnes during CY 2018, a growth of 6.59% over CY 2017. China remained the largest Crude Steel producer in the world, accounting for 74% of Asian and 52% of World Crude Steel production during CY 2018. India was the 2nd largest Crude Steel producer during CY 2018 and recorded a production of 106.463 million tonnes with growth of 4.94% over CY 2017, accounting for 8% of Asian and 6% of World Crude Steel production during CY 2018.

Though India, along with China, are the two fastest growing continental sized emerging markets of the world, it is a fact that growth has been slowing down for both nations.

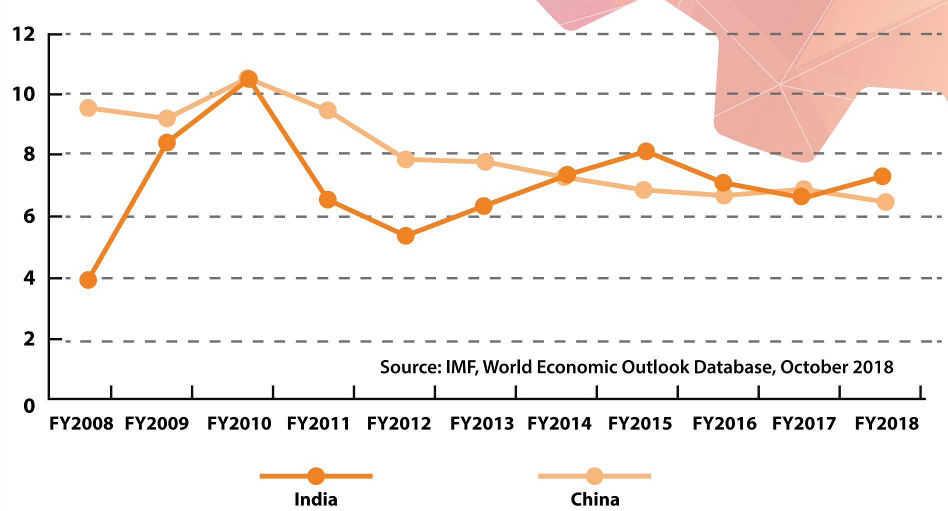
The second advance estimate of national income released by the Central Statistical Organization (CSO) of the Government of India on 28 February 2019 estimated India's real GDP growth for 2018-19 (or FY2019) at 7.0% — a 20 basis points decline compared to the previous year. Real gross value added (GVA) growth for FY2019 is also lower: 6.8% versus 6.9% in FY2018. Moreover, the quarterly estimates also indicate a growth slowdown: 7.8% GVA growth in Q1 FY2019, followed by 6.8% in Q2 and then 6.3% in Q3.

The second advance estimate of national income released by the Central Statistical Organization (CSO) of the Government of India on 28 February 2019 estimated India's real GDP growth for 2018-19 (or FY2019) at 7.0% — a 20 basis points decline compared to the previous year. Real gross value added (GVA) growth for FY2019 is also lower: 6.8% versus 6.9% in FY2018. Moreover, the quarterly estimates also indicate a growth slowdown: 7.8% GVA growth in Q1 FY2019, followed by 6.8% in Q2 and then 6.3% in Q3.

In the context of developed OECD economies, it seems strange that we get concerned with an annual growth rate of 6.8%. Richer countries would pine for such a performance. Yet, we have good reasons to worry when growth falls below 7.5% per year. For it constrains our capacity to create the additional employment that India needs — the more so in a rapidly digitized age where the need for additional employment is becoming lesser than before.

India is not alone in going through a phase of slower growth. Chart A plots GDP growth rates of India and China from 2008 to 2018. Both nations are slowing down, China more than India.

Chart A: Real GDP Growth, China and India (% Per Year)



At the time of writing this Management Discussion and Analysis, we do not know what the growth rate will be for the fourth quarter, i.e. January-March 2019. But, in all probability, it will not be high enough to convincingly lift the economy.

In the context of developed OECD economies, it seems strange that we get concerned with an annual growth rate of 6.8%. Richer countries would pine for such a performance. Yet, we have good reasons to worry when growth falls below 7.5% per year. For it constrains our capacity to create the additional employment that India needs — the more so in a rapidly digitized age where the need for additional employment is becoming lesser than before.

India is not alone in going through a phase of slower growth. Chart A plots GDP growth rates of India and China from 2008 to 2018. Both nations are slowing down, China more than India.

We have the reputation of being a one-stop shop; we can deliver the most comprehensive range of products – be it in size, or thickness or grade. Our production facilities are also equipped to handle both small and large orders, making us the most versatile producer around

Highest Ever Sales Volume:

Particulars	FY18	FY19	3 Yr. CAGR (in Millions)
Net Sales	1697.38	3218.62	47.4%
EBIDTA	149.56	244.96	276.5%
PAT	80.38	145.01	579.6%
EPS	8.03	14.49	581.9%
Net Worth	235.39	441.2	113.0%
			(in Thousand M.T.)
Sale Volume	32.17	58.18	83.0%
			(in Rs. Per M.T.)
EBIDTA	4649.57	4213.64	111.1%
PAT	2498.88	2494.37	232.9%

Opportunities for the Company

India's Steel Pipes and Tubes industry is believed to be a sunrise sector with huge opportunities cascading down from Infrastructure, Oil & Gas, Petrochemicals, Water, Irrigation, Sewage, Fertilizers, Power and Energy.

As the oil and gas industry is growing rapidly, the demand for steel pipes is also increasing. Features such as reliability and durability are some of the prominent factors driving the global demand for steel pipes. Steel pipes have a wide range of usability, they are used in the automotive, mining and construction industries, which drives the manufacturing steel pipe industry. The available range of steel pipes becomes one of the reasons surpassing the demand of residential and non-residential sector of steel pipes. The replacement of ageing pipelines also increases the global demand of steel pipes.

Oil and Gas is right at the top of the sectors promising both high-end as well as volumes business. On the domestic front, the government is firmly committed to deliver gas to every village in the next five years. All the City Gas Distribution (CGD) Bidding Rounds right up to the latest 10th Round, have elicited a massive response from the private sector. Since, city gas networks use ERW pipes, we are ready to ramp up ERW capacity at low additional investment to meet the new demand. We also foresee extra ERW orders from the product pipelines of IOCL, HPCL and BPCL.

The 'Make in India' effect

Make in India' initiative of the Government of India has had a positive effect on both the quantum and speed of projects approved. The initiative has also provided a boost to the local industry especially the steel sector. All tenders arising from the Ministry of Steel now have the clause of minimum 15% Domestic Value Addition, those arising from the Ministry of Petroleum & Natural Gas have a PPLC (Purchase Preference with Local Content) of minimum 20% for Indian suppliers. This has helped to curb international competition, especially from the Chinese players, and has greatly improved prospects of Indian companies.

GST reduction

While reduction in GST rates will support the real estate demand, ongoing capacity additions in renewable energy segment will boost the electrical equipment demand. Construction sector growth is estimated to be at 7.2 per cent in the next two years, whereas capital goods and railways are projected to grow by 6.8 per cent and 6.5 per cent, respectively.

RISKS AND CHALLENGES

At JTL Infra, a comprehensive and integrated risk management framework is followed. It is stringently monitored by the compliance team, supported by audits and ongoing reviews, leading to sound business decisions that balance risk and reward. The Company has a well-documented risk management policy. This policy is reviewed by the Management periodically and is appropriately modified wherever necessary.

However, as is typical in expanding business activities your company has become subject to a variety of risks, uncertainties and challenges. It is recognised that risks are not only inherent to any business but are also dynamic in nature. Further, the Company is susceptible to certain risks arising out of various activities undertaken in the normal course of business. There are many constraints affecting the smooth functioning of the industry in which your company operates. Given hereunder is a brief overview of the most significant risks and the company's approach to managing them.

1. Economic Downturn

Your company's customers could be impacted by a major economic downturn resulting in lower demand for their respective projects.

-Mitigation approach

Your Company has a highly diversified and well-balanced product and customer base. The risk is therefore spread very widely on the products, customers, regional and industrial sector/segments. Your company's flexible business model is capable to set operational priorities in the face of changing economic scenario. Your Company uses market data intelligence to follow and anticipate developments – allowing proactive management of changing market conditions.

2. Human Resource Risk

It may be difficult sometimes to find the skilled and well-trained employees and to maintain a harmonious work environment within the Company.

-Mitigation approach

The Company has created a strong HR policy, enabling the creation of a harmonious work environment. Its employees are imparted with regular training covering various work-related topics and soft skill development.

3. Labour Disputes

Industrial disputes lead to industrial action which impact your company's ability to meet client demands.

-Mitigation approach

Your company maintains an open and positive relationship with all the employees, subcontractors, workers, etc.; as exemplified by not a single instance of any such dispute so far.

4. Raw Material Risk

Significant changes in raw material costs can impact the profitability.

-Mitigation approach

Your company continues to hedge the risk by covering the raw-material on back to back basis immediately after receipt of an order.

5. Competitor Risk

Competitors find ways to bid at dramatically lower cost or bid to manufacture with better functioning/latest technologies.

-Mitigation approach

Your company continues to focus on being one of the most cost-effective manufacturers of high-end application ERW and Galvanized pipes & tubes in the country and a value leader, striving to innovate and bring new and increased value through the innovation to our customers while at the same time working to assure that your company's operations are world class in terms of efficiency, cost and waste avoidance.

Your company has a well-developed man power pool to manufacture highest quality products, while the management provides highest importance to the Quality and technology perspective to ensure long-term sustainable growth.

6. Foreign Exchange Risk

The exchange risk arises when there is a risk of appreciation of the base currency in relation to the denominated currency or depreciation of the denominated currency in relation to the base currency. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed.

- Mitigation approach

Your company has a well-defined Risk Management Policy to hedge the net foreign exchange using hedging strategies (e.g. forward contracts, futures contracts, options, and swaps) to reduce the exchange rate risk.

HUMAN RESOURCES AND WORK CULTURE

Your Company is focussed on building a high-performance culture with a growth mindset where employees are engaged and empowered to be the best they can be. Developing and strengthening capabilities of all employees in your Company has remained an ongoing priority. Your Company has successfully developed a work force over a period of time. The top management is acting as the governing force in creating and maintaining the corporate work culture. Our Vision is to raise our own benchmarks with every successive endeavour and it is possible only by making every employee a fully engaged and aligned team member.

The Company has well documented and updated policies in place to prevent any kind of discrimination and harassment, including sexual harassment. The Whistle Blower Policy plays an important role as a watchdog. Our HR policies are also centered on the creation of an environment that attracts nurtures and rewards high-caliber talent. We drive sustainable growth and have been instrumental in bringing in thought leadership in building strong employee relations.

People management is the backbone of your Company and it is regarded as one of the important resources for the success of JTL. The Human Resource agenda continues to support the business in achieving sustainable and responsible growth by building the right capabilities in the organisation. It continues to focus on progressive employee relations policies, creating an inclusive work culture and a strong talent pipeline. Over the years, your Company has strengthened its HR processes to ensure continual development and growth of its employees. HR processes are fine-tuned and updated to attract and recruit talent into the Company.

During the year under review, around 160 Employees were on the rolls of the Company.

INTERNAL CONTROL SYSTEMS

Your Company has in place adequate internal financial controls with reference to the Financial Statements. Such controls have been tested during the year and no reportable material weakness in the design or operation was observed. Nonetheless your Company recognizes that any internal financial control framework, no matter how well designed, has inherent limitations and accordingly, regular audit and review processes ensure that such systems are reinforced on an ongoing basis. Your Company has also put in place comprehensive systems and procedural guidelines concerning other areas of business, too, like budgeting, execution, material management, quality, safety, procurement, asset management, human resources etc., which are adequate and necessary considering the size and level of operations of the Company. The management has been making constant efforts to review and upgrade existing systems and processes to gear up and meet the changing needs of the business.

The Corporate Governance Policy guides the conduct of affairs of your Company and clearly delineates the roles, responsibilities and authorities at each level of its three-tiered governance structure and key functionaries involved in governance. The Code of Conduct commits management to financial and accounting policies, systems and processes. The Corporate Governance Policy and the Code of Conduct stand widely communicated across the Company at all times, and, together with the 'Strategy of Organization', Planning & Review Processes and the Risk Management Framework provide the foundation for Internal Financial Controls with reference to your Company's Financial Statements. Such Financial Statements are prepared on the basis of the Significant Accounting Policies that are careful selected by management and approved by the Audit.

The Company's Board of Directors is responsible for establishing and maintaining internal financial controls, based on the internal control over financial reporting criteria established by the Company. The Company's internal controls systems are commensurate with the nature, size and complexities of operations. The Company has well defined and adequately documented systems, policies, procedures & guidelines that have been reviewed by the Board. The Company strictly follows statutes, laws, rules and regulations of the land. It ensures stringent compliance at all levels and across all business units and departments for safeguarding its assets, prevention and detection of fraud and errors, completeness of accounting records and timely preparations of financial statements. These systems are regularly reviewed by the statutory and internal auditors. Significant audit observations and follow up actions thereon are reviewed by the Audit Committee.

The Indian Steel Association expects growth in steel demand to slow down to 7.2 per cent for the next two fiscal due to relatively slow growth in major consuming sectors such as automotive and consumer durables, Steel demand had grown by 8 per cent in 2018.

India's steel consumption is expected to cross 100 million tonnes this year, it added.

The World Steel Association had estimated steel demand in India to touch 103 million tonnes this year, against 96 mt logged in 2018. It would further grow up to 110.2 mt in 2020, it had said.

The automotive sector is witnessing softer demand since last October. Going by the recent trend and a strong base effect, growth is expected to slow down in the first half of 2019, the Indian Steel Association said on Wednesday. The steel industry expects demand from the automobile sector to revive in July due to pre-buying before the BS-VI norms kick in.

Steel demand from the consumer durables sector is expected to normalise after a strong growth was logged last year. Among consumer durables, air-conditioner, washing machine and refrigerator sales were boosted by a cut in GST rates.

The growth in both automotive and consumer durables sectors are expected to slow down to seven per cent each for the next two years from 16 per cent and 22 per cent clocked last year. Intermediate goods, which is driven by both investments and consumption, will see some moderation in demand on account of weaker growth in the automotive sector, said ISA.

The growth in the Indian economy slowed down in the second half of last year due to weak rural demand, high oil prices and rupee depreciation against dollar.

Going ahead, revival in private investment is expected to support the economy with consumption demand improving driven by concessions extended to farmers, unorganised sector and government employees. Cumulatively, the Indian economy is likely to maintain over 7 per cent growth for the next couple of years, it said.

Investment driven sectors such as construction, capital goods and railways are likely to maintain the healthy growth momentum driven by infrastructure programmes such as Bharatmala, Sagarmala, Railway track electrification, dedicated freight corridors and metro rails.

CAUTIONARY STATEMENT

This Statement contains forward-looking statements about the business, financial performance, skills and prospects of the Company. Statements about the plans, intentions, expectations, beliefs, estimates, predictions or similar expressions for future are forward-looking statements. Forward-looking statements should be viewed in the context of many risk issues and events that could cause actual performance to be different from that contemplated in the Directors' Report and Management Discussions and Analysis Report, including but not limited to, the impact of changes in oil, steel prices worldwide, technological obsolescence and domestic, economic and political conditions. Actual results could differ materially 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 the Government regulations, tax laws and other statutes and incidental factors. The Company disclaims any duty to update the information given in the aforesaid reports.