



management discussion & analysis

Annexure II to Directors' Report

SPL - OVERVIEW :

Srikalahasthi Pipes Limited – SPL is one of the leading manufacturers of Ductile Iron Pipes (DI Pipes) having the manufacturing facility in Rachagunneri village on Tirupati – Srikalahasthi Road, Srikalahasthi Mandal, Chittoor Dist. Andhra Pradesh. The integrated facility comprises of Backward and Forward integration units in a centralized complex spread over 350 acres. The Company's D.I. pipes are supplied to various Water Boards, Municipal Corporations, Irrigation Departments, Railways and Turnkey Contractors across the country for their Water Infrastructure Projects which are the thrust area of the

Government of India. The Company also manufactures Low Ash Metallurgical Coke, Pig Iron and Cement and all these products are used for captive consumption and surplus is sold in the market. The Company operates predominantly in a single reportable segment viz., Ductile Iron Pipes

By virtue of core business of manufacture and supply of DI Pipes for the Water Infrastructure Projects across the country, the Company is categorized as Public Utility Services Industry engaged in Water Infrastructure Development in the Country.

Operational Performance:

Product	Production (MT)		Sales (MT)	
	2019-20	2018-19	2019-20	2018-19
Molten Metal/Pig Iron @	2,99,477	2,88,215	2,98,326	2,87,915
D.I.Pipes	2,93,491	2,98,514	2,85,848	2,90,873
Lam Coke #	1,67,240	1,70,607	1,75,101	1,59,700
Cement \$	60,654	77,394	60,719	76,496
Power (Lakh Units)^	902	953	902	953

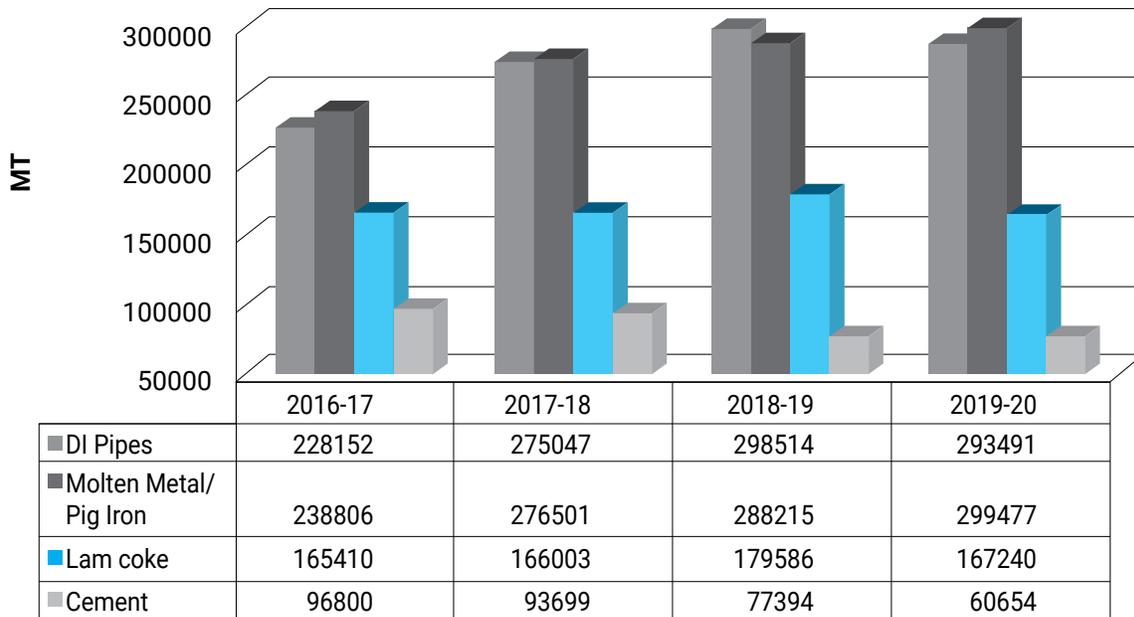
@ Sales include 2,89,705 MT (Previous year 2,86,616 MT) used for captive consumption.

Sales include 1,43,456 MT (Previous year 1,38,807 MT) used for captive consumption.

\$ Sales include 35,802 MT (Previous year 34,465 MT) used for captive consumption.

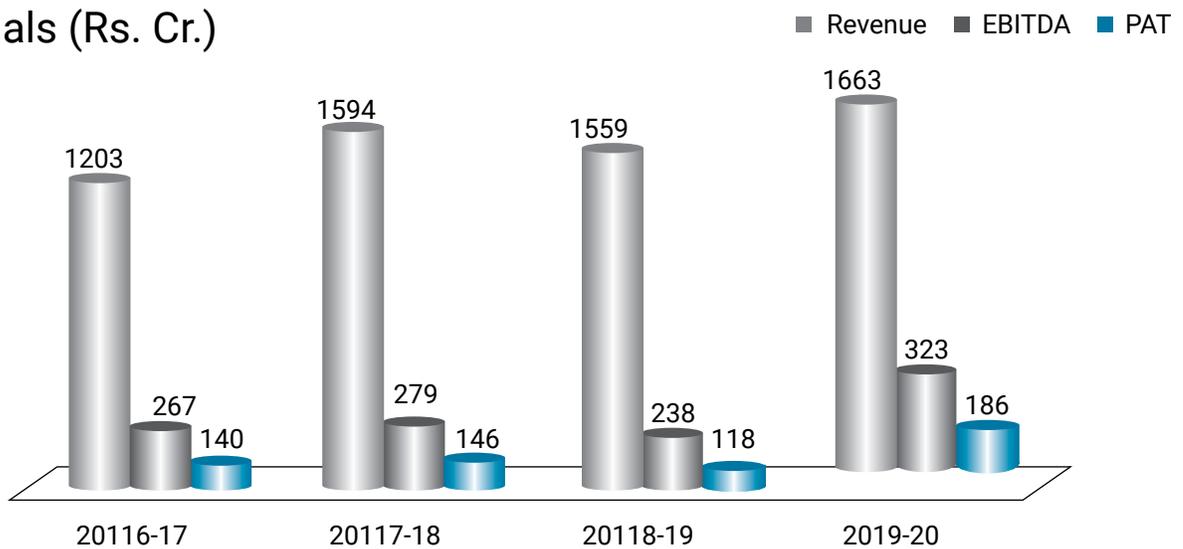
^ Captive Consumption

Production Performance 2016-17 – 2019-2020



Financial Performance :

Financials (Rs. Cr.)



Details of Sales Mix:

Rs. In Crores

Revenue from sale of product	2019-20	2018-19
Ductile Iron Pipes	1398.92	1345.59
Pig Iron	20.60	3.87
Cement	8.31	12.27
Ferro Silicon	4.35	---
Coke	75.97	57.38
Other products	154.75	139.68

Details of Key Financial Ratios:

Operating Profit Margin witnessed a growth from 15% in the FY 2018-19 to 19% in the FY 2019-20 and Net Profit Margin increased from 7.5% in the FY 2018-19 to 11.3% in the FY 2019-20.

Inventory Turnover:

	FY 2019-20	FY 2018-19
Avg. Inventory (Rs. Cr)	351.0	315.0
Avg. Turnover (Rs. Cr)	128.0	122.0
Ratio	2.73	2.58

Net Worth:

Rs. In Crores

	FY 2019-20	FY 2018-19
Share Capital	46.70	46.70
Other Equity	1370.33	1215.69
Net worth	1417.03	1262.39

Total Debts:

Rs. In Crores

Debt outstanding as at	31.03.2020	31.03.2019
Term Loans	137.60	163.93
Current Maturities of Long Term Debts	46.21	34.10
Working Capital Loans	242.68	152.08
Total Debts	426.41	350.11

Debt Equity Ratio:

	31.03.2020	31.03.2019
Debt (Rs. Cr)	183.81	198.03
Equity (Rs. Cr)	1417.03	1310.16
Debt: Equity	0.13:1.0	0.15:1.0

Indian Economy:

It is known fact that after the economic liberalization in the nineties, the Indian economy has been growing at an enviable rate. A steady growth in Gross Domestic Product (GDP) has been witnessed for more than two decades. This sustained economic growth has led to rapid urbanization all over India. As a result, villages are turning into towns, towns into cities and cities into megacities.

Demand for Potable Water Supply

Water, the basic essential need of life, is likely to pose the

greatest challenge on account of an increased demand with population rise and economic development, and shrinking supplies due to over-exploitation and pollution. The ever growing demand for safe water supply and disposal is fueling an increasing demand for pipes.

Demand for Water for Industries and Irrigation

Rapid economic development is bringing in more industries and with more industrialization the demand for Industrial water supply is also growing. Growth is also witnessed in the real estate and service industry which in turn further add to water demand.

India has a seasonal pattern of rainfall with 50% of precipitation falling in just 15 days. Over 90% of river flows for just four months. To ensure food security, this calls for regular irrigation of vast area of land to sustain agricultural activity. Traditionally irrigation in India has been mainly canal based. But due to ever increasing issues being faced for land acquisition and also to minimize transmission loss due to percolation and evaporation, there is growing acceptance of piped irrigation systems in the country. Whereas, many states have already switched over to Piped Irrigation System, other states are trying with model schemes, before going in big way. This has opened huge scope for use of pipes in the irrigation sector in the last few years and the same is expected to grow, as more and more states tastes the benefits of Piped Irrigation System.

Demand for DI Pipes

Water and sewerage infrastructure development in Indian urban, sub-urban and rural sector continues to fuel the growth acceleration for the domestic DI Pipe Industry. With only around 31% of India's population currently urbanized, along with high population density, India's urbanization trends have scope to significantly accelerate and likely to be around 40% by 2030. Further, the country faces immense problem of drinking water supplies and has poor transmission and distribution networks for water. In addition there is fast growing demand from Irrigation sector, as discussed above. To cater these growing needs, the Indian pipe market is growing at the rate of ~10% every year for more than a decade now. The preference for use of DI Pipes is gaining new grounds, due to ever increasing need for conservation. DI Pipes, due to its popularity as 'Leak proof- Fit and Forget Pipe' very well fits into meeting this requirement.

Effect of COVID-19 on DI pipe Industry

At present almost the entire humankind is in the grip of a COVID-19 pandemic which has drastically altered the way we live, behave and do business and this happened within a very short time span catching us unguarded. Like many other countries, India with its 1.3 billion people was under a prolonged lockdown, which is probably the largest ever cessation of normal human activity in the history of mankind.

It has disrupted industrial and business activities and like many other industry sector, the iron and steel sector is also affected for the time being. However it is expected that it is a passing phase and industry will bounce back once this temporary phase is over. The following facts will indicate the effect of COVID-19 pandemic on the DI pipe Industry.

a) **Overall Economic condition** - The world economy is

now facing a down turn due to the pandemic. However considering the demographic spread, so far India has done better than many of the western counterpart to largely contain the rapid spread of the pandemic. With the lockdown gradually being relaxed in India, it is expected that industrial and business activities will restart very soon and the economy is expected to look up again.

b) **The Workforce** - India is fortunate to have one of the youngest work-forces in the world who are better suited to endure the effect of the pandemic. So, as the business activities are restarting, India will be comparatively quicker to regain the growth rate.

c) **The Industry Sector** - COVID 19 has varied effect on various Industry sector. Certain sectors are badly affected and some are not. The water supply sector caters to a fundamental and non-negotiable need- i.e. drinking water and sanitation. So in this sector, the decrease in demand may not be significant, but actual sourcing will be subdued to an extent due to diversion of funds for COVID 19 related activities.

d) **More Funding for the infrastructure sector** - GOI has already announced a series of economic measure to boost up the economy. The stimulus package amounting to Rs. 20 Lakh Crores has been announced. Major enhancement in spending is expected in the infrastructure sector, which also includes water supply.

e) **The Jal Jeevan Mission (JJM)** - The government has already initiated the Jal Jeevan Mission last year and expected to spend 3.5 lakh Crores in 5 years with a declared intention to bring piped water to every Indian house hold. A dedicated Ministry of Jal Shakti has been created for this purpose. Based on feed back from various state govt departments. It is expected that the spending on this mission will continue as planned. The minister for Jal Shakti, has given a very positive signal as late as May, 2020 that despite challenges posed by COVID 19 pandemic, the target of providing piped water to all household by 2024 is going on schedule. Considering that currently only ~18% of india's households have piped connections, this mission provides great potential for pipe industry and hence DI Pipes.

f) It is also learnt from the discussions with concerned govt officials that execution of Water Supply schemes under NRDWP and AMRUT will continue without interruption. Further, there are various projects funded by External agencies. These projects will also be executed as planned.

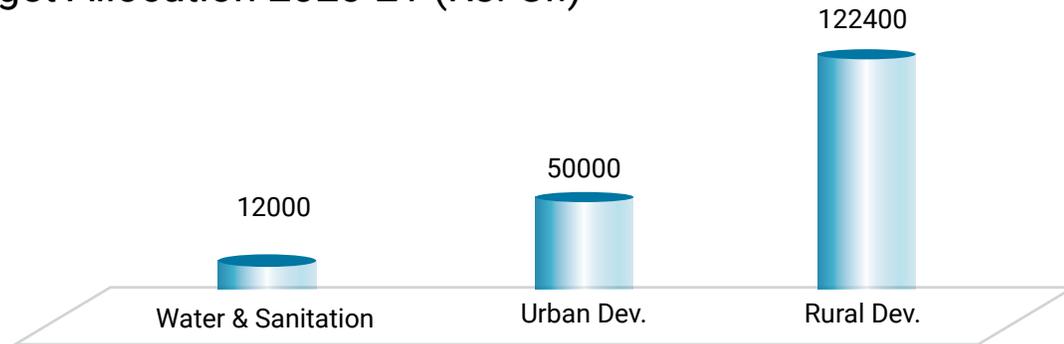
g) **Raw material supply** - The Mining sector comes under

essential services and largely remained unaffected. So no specific disruption of raw material availability or pricing is foreseen. So no appreciable effect on cost of production is expected.

All the above indicate that though the pandemic has some immediate effect on the Industry as a whole, it is a passing phase and the Industry and overall effect on DI Pipe industry will not be significant.

Estimated spend towards drinking water and sanitation, Rural and Urban Development Projects & Schemes :

Budget Allocation 2020-21 (Rs. Cr.)



Source: Ministry of drinking water & sanitation, Urban and Rural development.

Raw materials Management:

The Company strongly believes that effective and efficient functioning of the material management has direct bearing on the total performance of the organization. The Company's Material Management function is operated on an integrated basis and is focused on material forecasting, planning, and inventory control. With coordinated efforts on planning, controlling, organizing procurement of bulk raw materials like coal and iron ore on long term contract/spot market at competitive prices, the cost of raw materials as well as inventory carrying cost has been considerably reduced. Further efficient operation of Sinter plant coupled with maintaining cost-effective ratio of sinter and lump ore helped the Company in achieving considerable reduction in the cost of raw materials.

Quality Management System (QMS):

The Quality Control and Quality Assurance Team plays a pivotal role in understanding customer requirement and supplying products as per their requirements. Across the entire business chain of supplies, operations and marketing appropriate quality assurance systems are in place to ensure correctness of each stage of the cycle. The ISO 9001:2015 certification and the Kite Mark license issued by British Standards Institute, UK for the Ductile Iron Pipes manufactured by the Company are the testimony for the Company's commitment for the adherence to the quality standards.

For ensuring quality at every stage of operations, the

production processes are constantly monitored and controlled to ensure that the finished products are as per customer's requirements. The plant has well equipped laboratories with latest quality control and testing equipments. The Company has well documented Standard Operating Procedures (SOPs) and process controls for every stage of operation and the Quality Assurance Team ensures strict adherence to the SOPs to ensure achieving industrial quality benchmarks.

Safety, Health & Environment (SHE) :

At SPL, safety, health and environment are accorded the highest importance and considered an integral part of the business. The company has put in place a well established system for safety management supported with well defined Safety Policy that incorporates standard operating procedures, instructions, safe methods of work and work permit system.

The Company, in order to strengthen its safety standards further at a cultural level, continuously exposes its employees to behavioural safety education, training and practices. The emphasis of this initiative is to continuously strengthen the safety culture in the organization through a process reliant on behaviour-based safety observation.

The concept of reporting Safety Observations by cross functional teams is proving very effective in identification of unsafe conditions and acts across the integrated facility of the Company. Such safety observations identified by the cross functional teams will be followed up by the

teams along with safety department and ensure that the corrective and preventive measures are implemented with respect to the safety observations made by the cross functional teams.

The safety department regularly conducts audits in all plants with an objective to identify strengths and weaknesses of the current system, identify risks of personal injury, and promote employee participation and morale. The scope of the audit also includes proper and safe use of equipment and PPEs by employees.

As a part of safety governance mechanism, the Company has dedicated committees and various functional teams to ensure safety and implementation of our safety standards. The Safety, committee meets periodically and reviews the safety performance every quarter. Training and awareness across the organisation continues to be considered as a key element of Safety Strategy. Aspects such as Safety Management Fundamentals, Incident Investigations, Contractor Safety Management are considered in training programmes for the employees as part of induction programme and also as refreshers to existing employees.

As regards environment management, the Company is always committed to ensure adherence to the mandatory standards by putting in place a robust Environmental Management Systems and Standard Operating Procedures. The Company actively benchmarks its environmental performance between its own Plants as well as peers and adopts best practices across Plant locations for maximum impact. The Company continued to drive a number of initiatives to reduce its environmental footprints.

Some of the noteworthy initiatives undertaken during the year are:

- Installed 12 Nos. continuous online stack emission monitors around the plant, apart from existing 17 Nos. to monitor and control stack emission, with real time data being linked to the servers of Central Pollution Control Board as well as State Pollution Control Board.
- In Coke Oven Plant, 12400 m² Coal storage yard with drain has been concreted to control the ground loss during handling and to collect coal wash during rainy season.
- Roof top rain water harvesting pit 2 Nos (25KL each) established to recharge rain water into the ground.

CORPORATE SOCIAL RESPONSIBILITY (CSR):

SPL strongly believes that sustainable community development is essential for harmony between the community and the industry. It endeavors to make a

positive contribution to the underprivileged communities by supporting a varied range of socio-economic, educational and health initiatives, besides contributing for animal welfare. Further, the Company is determined to integrate its business values and operations to meet the expectations of all its stakeholders.

The Company understands its social responsibility and continues to advance its policies on corporate activities in social, environmental and ethical aspects by being responsive to its key stakeholders. The Company aims to support the socially economically backward groups and under privileged and marginalized sections of the society in providing support and assistance in improving the quality of life of people in the community. The Company continues to maintain sustainable growth together with society by carrying out activities based on the chosen pillars of Corporate Social Responsibility.

INFORMATION TECHNOLOGY (IT):

SPL recognizes the fact that self-reliance in technology is a pre-requisite for growth, especially in the context of globalization and expanding operations. The Company continues to leverage Information Technology (IT) as a key enabler of its strategy, business growth and competitiveness.

The Company is continuously focused on developing a business strategy with an IT component that is aligned with business objectives and is supported by sound business justification, which enables the organization to improve performance, increase productivity, and serve customers more effectively. IT provides employees, customers, suppliers, dealers and business partners with best in class technology solutions.

During the FY 2019-20, the IT function of the Company has successfully undertaken the following initiatives to further enhance overall organizational efficiency.

- Successful implementation of SAP HANA across the organization.
- Integration of auto E-Waybill system to SAP facilitating expeditious e-way bill generation.
- Implementation of e-mail security system for scanning of all the external mails as part of cyber security measures.

HUMAN RESOURCES MANAGEMENT:

The Company considers its human capital a critical factor to its success. In line with the Company's philosophy of continuously harnessing employee potential and developing them to become more capable professionals and future

leaders, the Company has been continuously focussing on developing a more effective and comprehensive strategy to address the key aspects of Human Resource Management.

SPL is highly committed to acquiring the best talent from the industry and nurturing & developing human assets to enhance its own function. It is vital that the selection procedure of the human assets should be such that the Company is in a position to select the best talent required for varied functions of the organization. In accordance with the objectives of the organization, the HR function of the Company is focused on creating a pool of skilled and capable employees through continuous learning and development initiatives.

The dedicated L&D function of the Company endeavours to provide on an average 2-3 days of training per employee on an annual basis. The training programme is conducted based upon the training needs identified. The participants are nominated for both in-house and external training. The L&D Department will plan for and execute the training initiatives on functional as well as behavioural / management training in close co-ordination with functional heads.

The new mentoring concept is under implementation across the organization. Mentoring refers to a developmental relationship where a more experienced person (the mentor) helps and guides a young and inexperienced pool of persons (the mentees) to better their professional career. Mentoring goes beyond the normal boss-subordinate relationship as it also involves sharing of professional skills, expertise and experience with the mentee. This initiative will do a world of good in developing interpersonal relationships and knowledge sharing.

The Company believes that with diversity and inclusion at workplace, it can leverage the multiplicity of skill sets in all its operations. The reward and recognition schemes of the Company continue to be instrumental in encouraging creativity and innovation among all levels of employees across the organization.

RISKS/CONCERNS & MITIGATION:

Risk management is an integral part of the Company's operations. The Risk Management Policy of the Company facilitates identification and analysis of various internal and external risks, their implication on the business and mitigation measures. All the risks are regularly reviewed and focused approach is undertaken to mitigate the risks to curtail its impact on the operations of the Company. The major risks and suggested mitigation measures are described as under.

Raw material Risk :

Any steep increase in the price of major raw materials like coking coal, iron ore etc., or their shortage or unavailability can adversely impact the Company's profitability and operations.

The Company controls such risk through dynamic sourcing strategy including constant review of market conditions and effective procurement planning in line with demand supply conditions. Besides this initiative, the Company has raw material pass-through clauses in some of its contracts to protect itself from input price volatility.

Funding Risk :

The Company's scale of investments in its expansionary projects entails large quantum of capital. Inability of the Company to source low cost funds and control debt levels may impact profitability.

With efficient financial planning and funding of expansion projects with a judicious mix of internal and external funds, the Company has maintained a reasonably healthy debt equity ratio. This apart, Company's consistent performance coupled with good credit rating ensures mobilization of funds from banks and financial institutions at a cheaper cost.

Competitors Risk:

In increasingly domestic market, the company may fall victim to competition resulting in reduced order book position leading to thinner profitability. The Company's constant thrust to maintain consistent quality, the ability to cater to the market driven product mix coupled with healthy brand image and efficient marketing strategy reduces the risk of competition and protects the market share of the Company.

Environmental Risk :

By virtue of its manufacturing process, the Company is exposed to the risk of environment pollution and if due care is not taken and proper attention is not drawn on environmental management, the Company may be bound to face objection from statutory bodies.

The Company's constant drive on implementation of effective environmental management systems, which include proper disposal of wastes and hazardous material, sticking to stringent self benchmarking norms through close monitoring of emission levels across all locations and ensuring regular compliance with various environmental legislations and best practices reduce the risk of environmental pollution.

Receivables Risk :

The Company by virtue of extending credit to its customers, being turnkey contractors and Government Bodies is exposed to credit risk in terms of non realization of book debts and delayed recovery of receivables thereby posing unexpected cash flow issues.

The effective credit risk management practices of the Company, which include regular evaluation of credibility of the customers, frequent review of credit limits of the customers and fixing/tightening credit limits in accordance with the financial strength and track record of the customers and securing major quantum of supplies with letters of credits and bank guarantees wherever necessary, will minimize the risk of receivables to a greater extent.

Foreign currency Risk:

The foreign exchange risk of the Company mainly arises on import of raw materials, machinery and exposure to External Commercial Borrowings.

The Company continuously monitors its foreign exchange exposure and hedges its foreign exchange risk exposure to the extent considered necessary through forward contracts and option structures.

Human resources Risk:

The Company, being manpower centric, the inability to attract and retain skilled manpower may pose threat for the efficient operation of its units.

With continuous focus on initiatives such as employee skilling, career development, engagement, motivation and appropriate recognition of performance ensure employee retention, minimizing the risk of people exodus.

As a part of the Company's strategic risk management processes, the risks faced by the Company and the corresponding risk mitigation plans deployed are being revisited at periodic intervals and the Company is on track in respect of its risk mitigation plans.

INTERNAL CONTROLS:

The Company has an adequate system of internal controls in place. It has documented policies and procedures covering

all financial and operating functions. These controls have been designed to provide a reasonable assurance with regard to maintaining of proper accounting controls for ensuring reliability of financial reporting, monitoring of operations, and protecting assets from unauthorized use or losses, compliances with regulations. The Company has continued its efforts to align all its processes and controls with global best practices.

The Audit Committee comprising of independent directors regularly reviews the audit plans, significant audit findings, adequacy of internal controls, compliance with accounting standards as well as reasons for changes in accounting policies and practices, if any. State-of-the-art Enterprise Resource Planning connect the Company's different locations for efficient and seamless information exchange. Detailed business plans for each segment, investment strategies, year-on-year reviews, annual financial and operating plans and monthly monitoring are part of the established practices for all operating and service functions of the Company.

OUTLOOK:

The company is having comfortable order book for supply of Ductile Iron pipes. During this Covid-19 situation, safe and hygienic water supply is most important for the Government. Ductile Iron pipe is the safest and most suitable pipe for transportation of water not only in urban cities but also in rural India. The company is hopeful that Central and State Governments will continue to give priority and remain committed in respect of ongoing and future water supply, sewerage and irrigation projects in the country.

CAUTIONARY STATEMENT:

Statements in the Board's Report and the Management Discussion & Analysis describing the Company's objectives, expectations or forecasts may be forward looking within the meaning of applicable Securities Laws and Regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in Government Regulations, Tax Laws, Economic Developments within the country and other factors such as exchange rate fluctuations, interest and other costs.