



MANAGEMENT DISCUSSION AND ANALYSIS

**REAL ESTATE
SECTOR IN
INDIA IS
EXPECTED TO
REACH US\$
1 TRILLION
BY 2030. BY
2025, IT WILL
CONTRIBUTE
13% TO THE
COUNTRY'S
GDP.**

OUR ECONOMIC ENVIRONMENT

Performance: The global economy continued its downward slide in 2019, pushed to the edge by multiple factors that cumulatively held back economic progress – these factors include a sharp deterioration in manufacturing activity and global trade, higher tariffs and prolonged trade policy uncertainty damaging investment and demand for capital goods. The continued contraction of the global automotive industry also played spoil sport. As such, the global economy recorded its lowest growth (2.9%) of the decade in 2019.

In keeping with the larger trend, India's GDP growth slid for another year to 4.2% in 2019-20 from 6.1% in 2018-19. On the output front, agri and mining sectors seem to have held forts. On the expenditure front, government spending seems to have saved the day. Private consumption, manufacturing, gross fixed capital formation and net exports were very disappointing.

The per capita income at current prices during 2019-20 is estimated to be ₹1,34,226, showing a rise of 6.1% as compared to ₹1,26,521 during 2018-19.

Prospects: Covid-19 has emerged as a shock for the globe, more so a reset button that has requisitioned the world to take a deeper look at things taken for granted this far.

The irreparable economic and social loss inflicted by the pandemic, and consequent lockdowns across the globe to combat the contagion, has

pushed the world deep into recession. The IMF estimates a 3% contraction in the global GDP in 2020 – a figure which could deteriorate – given the possibility of a further decline in consumption, more job losses and the risk of a fresh wave of bankruptcies. Also, the United States-China trade war, political tensions in Hong Kong and other geopolitical risks may have big implications for global supply chains and allocation of production going forward – this could decelerate the economy beyond the stated estimates.

India, once a shining star on the global horizon, has dulled. The path ahead appears to be even more challenging as India imposed the world's longest and most stringent lockdowns extending two months – it prioritized lives over livelihood. But, the economic engines have restarted as the lockdown has been lifted in phase.

India, the resilient outlier, has in the past been alive and agile on turning the tide. Credible sources suggest that the engines of the economy should start chugging in the second half of the year, arresting the sharp economic erosion in the first half. But on an overall perspective the economy is expected to contract in 2020-21

OUR SECTORAL ENVIRONMENT

Apollo TriCoat is unique in its approach for its operations are pivoted on the ability to develop and deliver concept products to Indian enterprises and consumers. From a macro perspective

though, Apollo TriCoat is into home décor products. Hence, to appreciate the prospects of the Company, it would be relevant to get an insight into the prospects of the real estate sectors.

Real estate: The real estate sector was reeling under huge stress even before COVID-19 struck the economy. Markets were already at a bottom and the last five years saw the sector getting further impacted by reforms like Demonetisation, GST & RERA. This pressure was amplified due to the credit squeeze, high leverage, rising non-performing assets in the construction finance and also due to the overall economic slowdown.

To add to the woes, India's real estate sector –both the residential as well as the commercial segment – has been considerably impacted by the Covid-19 pandemic. It has resulted in homebuyers putting on hold their decision to buy houses which led to a 30% decline in sales in the first quarter of 2020.

The industry will need to reconsider pre-crisis priorities and accelerate new strategic initiatives to adapt to a “next normal.” While the office sector is expected to lead the recovery cycle in the real estate sector, the green shoots of recovery in residential sector will be in

tandem with overall economic growth

Residential market's revival hinges on intensity and duration of the pandemic. As consumer sentiments improve post the lockdown period, sales in the affordable and mid segments are expected to show initial green shoots of recovery towards the end of 2020,

Over the medium term: Real estate sector in India is expected to reach US\$ 1 trillion by 2030. By 2025, it will contribute 13 per cent to the country's GDP. Rapid urbanisation bodes well for the sector. The number of Indians living in urban areas is expected to reach 525 million by 2025.

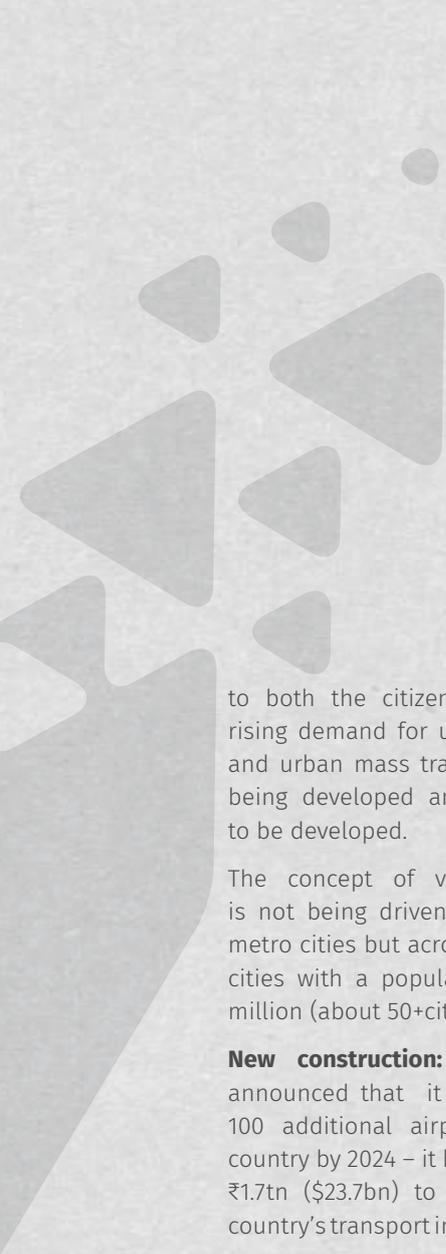
Affordable housing: The affordable housing segment has grown at a rapid pace with the backing of the Central Government through its flagship initiative of Pradhan Mantri Awas Yojana (PMAY). Deducting of reverse repo rate, extension of RERA deadline and the recapitalization of NBFCs alongside earmarking INR 10,000 crores for the National Housing Bank (NHB) will ensure a smoother flow of capital to HFCs thereby expanding credit support to developers. All these steps will influence buyer sentiment and increase the changes of higher purchasing power. This segment has always had a great demand and post Covid-19 it will increase

manifold as fence-sitters will buy them.

The government further reinforced the affordable housing segment by extending the Credit Linked Subsidy Scheme (CLSS) for the middle-income group up to March 2021. Additionally, it opened a new investment class in the form of an affordable rental accommodation scheme for migrant workers and urban poor. Another trend which shall help in increasing demand for affordable homes is that of reverse migration. It shall spur housing demand in Tier-2 and Tier-3 cities giving developers the option to expand their projects to these markets as well.

High-rises – the next normal: Data from ANAROCK Property Consultants showed that with an increasing pressure on Indian cities to grow vertically, the share of high-rises has reached unprecedented heights in 2019. Of total 1,816 housing projects that were launched during the year across top 7 cities, over 52% were high-rises with ground plus 20 floors structure. This trend is only expected to increase going forward.

Considering the limited availability of land in urban areas, the ministry of housing and urban affairs has advocated for compact, dense and vertical urban densification. It believes that vertical growth is beneficial



to both the citizens given the rising demand for urban spaces and urban mass transit systems being developed and proposed to be developed.

The concept of verticalization is not being driven only in the metro cities but across all Indian cities with a population of one million (about 50+ cities).

New construction: India has announced that it will develop 100 additional airports in the country by 2024 – it has allocated ₹1.7tn (\$23.7bn) to support the country's transport infrastructure.

Greenhouses: In the middle of an industrial building in the Andheri East neighbourhood of Mumbai is a farm. It is spread across 1,000 sq ft and grows 2,500 plants. It is no ordinary farm.

It is an example of a newly popular and successful type of urban farming—hydroponics which is gaining credence as India along with the world is waking up to agricultural practices which are environment-friendly and guarantee healthy produce.

Hydroponic farming is setting up roots all across India. And is expected to grow at a frantic pace over the medium term. Consider this: India is currently importing more than 85% of its exotic vegetables, creating a growth rate of 15-20% per year. Certainly, hydroponics can help

fuel this growth given the farming expertise that exists in India.

ABOUT THE COMPANY

Apollo TriCoat Tubes Limited is a subsidiary of Shri Lakshmi Metal Udyog Limited, which is a wholly-owned subsidiary of APL Apollo Tubes Ltd., one of India's leading branded steel tube manufacturers. The Company has manufacturing facilities at Malur, Bangalore and Dadri, Uttar Pradesh. It has a basket of seven products, all of which are first-time launches in India.

OPERATIONAL PERFORMANCE

Fiscal 2019-20 was an important milestone in the Company's journey as it commenced manufacturing operations of its two products – the doorframes and planks.

Apollo Chaukhat, its steel doorframes positioned as a replacement of wood, received an overwhelming customer response as its capacity was fully booked in the first month after its launch. It also launched Apollo Plank, a steel solution pitted against wooden products, which registered healthy demand.

Overall its four products, Chaukhat, Signature, Elegant and Plank, ramped up reasonably well and operated at 70%-80% utilization.

HUMAN RESOURCE & INDUSTRIAL RELATIONS

Apollo TriCoat is a family of 402 (including contractual) members. These people are the cornerstone of passion and perseverance that have enabled the Company to challenge the status quo at every step and go beyond the perceived boundaries.

The HR department sourced best-in-class working professionals for various positions while setting up the Tube Mill Project. The successful commissioning of three Tube Mills and one GP Line and Wide Slitter within the defined time frame was possible because of the persistent hard work of the people.

The HR team discusses the manpower strategy with the operations team and sets a deadline for the hiring process. The department has roped in consultants for cherry-picking the best talent and it also values employee references in the recruitment process. The HR in hindsight plays the key role of aligning with the business plan through understanding the operations and executing recruitment in close coordination with stakeholders.

Training & Upskilling

The HR department has begun focusing on the implementation of training interventions across

the group. A two-day workshop was held in April 2019 on Communication Skill and Team Building Interventions for the technical workforce at Malur.

The training was delivered through group activities, motivational videos and deconstruction of each session through guided introspection and reflection for creating a lasting effect. The HR is also focusing on team bonding and a setting up a cohesive workforce at the Malur plant through a process of implementing training across three segments – the junior management, consisting of engineers, shift in-charges, the middle management, consisting of AM/managers/senior managers, and the senior management, comprising senior functional heads and plant heads.

The main focus that the HR will now work on is to create a training calendar by identifying the training need analysis and also have an outbound training proposal.

Performance Management

The HR is working to build a strategy for putting in place a robust PMS system in this financial year through the process of MBO (management by objectives). It is working on a proposal of framing

the key responsibility areas (KRA) and objectives of employees in the staff level (senior executives and above) and following it up with the evaluation of their KRAs at the end of the financial year.

The prime focus will be in setting up the goals and assessing the performance through its careful monitoring in close coordination with key stakeholders. Emphasis will also be made to sensitise the employees (HODs and team leaders) on the importance of having an effective performance management system that will be transparent through the mechanism of regular feedbacks for enabling the improvement in the overall performance of the employees.

HR Systems Automation

The human resource department has undertaken and completed the process of implementation of HR Systems Automation through Adrenaline Software across the Company. In the first phase, the HR has implemented a set of modules during the current financial year.

- Phase I: HR Foundation, consisting of organisational structure, job structure, employee information, payroll module (compensation management), workforce administration (absence, time

and attendance management, shift and scheduling, asset management, travel management and claims reimbursement). This was made functional by the first week of September 2019.

- Phase II: In this phase, talent acquisition and PMS modules incorporation in the Adrenaline Software will be targeted after the implementation of Phase I. The HR aims to bring in the system of employee-friendly HR practices through automation processes.

Employee Engagement

The HR wing took care to celebrate special days for Apollo TriCoat family members. Birthday celebrations are a must across the rank and file at the Company. Other special days like the International Women's Day and Independence Day are also observed with a lot of fanfare. Festivals are also observed across the Company's various facilities to foster employee connect.

The department is working on a reward and recognition programme to be implemented in the current financial year with the objective of motivating the employees. The HR is also working to fix an annual welfare budget and getting it approved by the senior management for

subsequently rewarding best performers across the group.

FINANCIAL PERFORMANCE

FY2019-20 can be considered to be the first step towards an illustrious journey for Apollo TriCoat, one that will introduce technology-based, environment friendly products that promise to make success sustainable.

In the first year of operations, the Company registered a topline of ₹66,325 lakhs and registered a Net Profit of ₹4,226 lakhs; the EBITDA per tonne was ₹6,124 in 2019-20.

Shareholders' Fund stood at ₹19,955 lakhs as on March 31, 2020 while total borrowings was at ₹11,256 lakhs on that day; the debt-equity ratio was at 0.6x at the end of FY2019-20.

The Company reported a Net Cash from Operations amounting to ₹8,334 lakhs for 2019-20.

INTERNAL CONTROL & ITS ADEQUACY

The internal control mechanism at Apollo TriCoat is structured to ensure complete compliance of internal financial controls with various policies, practices and statutes in accordance with its growth and complexity of operations.

The system assesses all aspects of risks associated with the Company's activities and its corporate profile. It also covers scientific and development risks, partner interest risks, and commercial and financial risks.

Internal auditors of the Company carry out extensive audits throughout the year across all locations and functional areas and submit their reports to the Audit Committee.

In a move of upgrading the standard of governance and encouraging transparency, your Company has appointed M/s Walker Chandiot & Co LLP as Statutory Auditors for the



5 coming financial years and E&Y as Internal Auditors of the Company.

A legal compliance programme, supported by a robust online system, covers the manufacturing units. It includes statutes such as industrial and labour laws, taxation laws, corporate and securities laws, and health, safety and environmental regulations.

RISK MANAGEMENT

The risk management framework at Apollo TriCoat is designed to make the business model stronger and make profitable business growth more sustainable.

The strategy is devised on the central axis of the Company's

risk appetite calculated on the basis of various criteria. These factors are worked out on sectoral circumstances, liquidity conditions and the Company's earnings target within the accepted volatility limits. They provide a reference for its operating functions.

Apollo TriCoat has adopted a comprehensive and integrated risk appraisal, mitigation and management process. The risk mitigation measures of the Company are placed periodically before the Board for review.

IN A MOVE OF UPGRADING THE STANDARD OF GOVERNANCE AND ENCOURAGING TRANSPARENCY, YOUR COMPANY HAS APPOINTED M/S WALKER CHANDIOT & CO LLP AS STATUTORY AUDITORS FOR THE 5 COMING FINANCIAL YEARS AND E&Y AS INTERNAL AUDITORS OF THE COMPANY.

