

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The management of Manaksia Aluminium Company Limited presents the analysis of performance of the company for the year 2019-20 and its outlook for the future. The outlook is based on assessment of the current business environment. It may vary due to future economic and other developments. Certain statements in this report may be “forward looking statements” within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company’s operations include global and Indian demand supply conditions, finished goods prices, feed stock availability and prices, cyclical demand and pricing in the company’s principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the company conducts business and other factors such as litigation and labour negotiations. The company assume no responsibility to publicly amend, modify or revise any forward-looking statement, on the basis of any subsequent development, information or events, or otherwise.

Economic Overview

India GDP Growth:

The Indian economy witnessed a slowdown during FY 2019-20 and the GDP is estimated at 4.2% as compared to 6.1% in FY 2018-19. (Source: Press note by National Statistical Office dated May 29, 2020).

The sluggish growth is due to both endogenous and exogenous factors, key indicator being lack of credit growth and demand in market, leading to low growth in final consumption expenditure, decline in gross fixed capital formation and export earnings. Major global contributing factors are the Sino-American trade conflict, Brexit, geopolitical tensions and deceleration in developed economies. Another reason for this sluggish growth is due to poor showing by manufacturing and construction sectors. As per National Statistical office, gross value added (GVA) at Basic Prices for FY 2019-20 from ‘Manufacturing’ sector is estimated to grow by 0.3% as compared to growth of 8.6% in 2018-19. According to World Bank, India’s GDP growth in FY 2020-21 is projected to contract sharply by negative 3.2% which is likely to be the lowest in many decades as the impact of COVID-19 pandemic materializes. Stringent measures to restrict the spread of the virus, which heavily curtail activity, will contribute to the contraction of economic growth. Spillovers from contracting global growth and balance sheet stress in the financial sector will also adversely impact economic activity, despite some support from fiscal stimulus and continued monetary policy easing.

To improve the economic situation, government took measures to revamp the financial sector by increasing credit outflows by the banks and Non-Banking Financial Companies (NBFC)s, reducing stress in real estate sector, liberalising foreign direct investment norms, a significant cut in the corporate tax rate, easing tax rules for foreign portfolio investors and start ups and speeding up resolution process under Insolvency and Bankruptcy Code, 2016.

The COVID-19 pandemic imposed fresh challenges to economy in the fourth quarter of FY 2019-20. Steps taken to contain its spread such as complete lockdown of the country brought economic activities to a standstill and impacted consumption and investment. The Reserve Bank of India (RBI) has moved in a calibrated fashion to ensure conducive financial conditions and normalcy in the functioning of financial markets and institutions. The initial efforts to provide adequate system level liquidity are reflected in the sizable net absorptions under reverse repo operations. Several other measures are taken include relaxation of CRR norms, rate cuts, granting moratorium for loans, enhancing working capital financing to assist sectors and entities which are facing liquidity constraints. The government has come up with targeted measures to ease the economic pain in various sectors and announced overall economic revival package of INR 20 lakh crores. In case of Micro, Small, and Medium Enterprises (MSMEs) government of India announced INR 3 lakhs crores Collateral Free Loans, INR 20,000 crores subordinate debt for stressed MSMEs, 12 months moratorium with 100% credit guarantee cover along with changes in definition of micro units turnover upto INR 5 crores included.

Global GDP Growth:

Global growth decelerated markedly in FY 2019-20 with continued weakness in global trade and investment. This weakness was widespread, affecting both advanced economies (particularly the European market) and Emerging Market & Developing Economies (EMDE). Bilateral negotiations between the United States and China since October 2019 resulted in a phase one agreement. This comes after a prolonged period of rising trade disputes between the two countries, which has heightened policy uncertainty and weighed on international trade, confidence, and investment. Financial market sentiment improved

appreciably towards the end of 2019 along with the alleviation of trade tensions. Against this international context, global growth weakened to an estimated 2.4% in 2019 being the lowest rate of expansion since the global financial crisis. Global trade growth—which is estimated to have slowed sharply from 4% in 2018 to 1.4% in 2019, expected to be at the weakest pace since the global financial crisis.

During 2019, there has been a decline in the prices of most commodities mainly reflecting the deterioration in the growth outlook, especially that of emerging markets, which tend to have a larger income elasticity of demand for commodities. Prices for most base metals weakened in the second half of 2019, primarily due to weaker global growth and trade tensions. Agricultural prices declined in the second half of 2019 on improved weather conditions that ensured elevated stock levels for grains.

COVID-19 Pandemic:

The impact of the COVID-19 pandemic has created significant volatility in the global economy and led to reduced economic activity. There have been extraordinary actions taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in regions throughout the world, including travel bans, quarantines, “stay-at-home” orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. The pandemic has resulted, and may continue to result, in significant economic disruption that has and likely continue to adversely affect our business.

The ultimate impact of the pandemic on our business, results of operations and financial condition will depend on numerous evolving factors and future developments, including the ultimate duration, spread, severity and repetitiveness of the outbreak; the ultimate extent and duration of its effect on the global economy and how quickly and to what extent normal economic and operating conditions resume.

Consistent with the actions taken by Indian governmental authorities, in late March 2020, our manufacturing operations were drastically reduced for a period of time vide an order no – 52 dated 26/03/2020 issued by Office of the District Magistrate & Collector (Purba Mednipur) under the Government of West Bengal giving relaxation and instruction for operating. Recently we have resumed total production.

Industry Structure and Developments

Aluminium Industry – Global Market

Global consumption declined by (-)1.6% in CY19 vs growth of 3.2% in CY18

- Consumption in World except China declined in CY19 by (-)3.5% vs. growth of 2% in CY18
- In China, consumption de-grew marginally by (-)0.1% in CY19 vs. growth 4.1% in CY18

In Q1 CY20, in backdrop of COVID 19, global consumption declined by (-) 9.3%

- Consumption in World Ex. China declined in CY19 by (-) 8.6%
- In China, consumption declined by (-)9.8% in CY19

Aluminium Industry – Domestic Market

Domestic consumption in FY20 declined by (-)6% to 3,720 Kt

- Imports including scrap de-grew by (-)6% to 2,170 Kt in FY20 ; Domestic sales declined by (-)6% to 1,550 Kt in FY20

Domestic consumption in Q4 FY20 declined by (-)11% YoY, to 905 Kt

- Imports including scrap de-grew by (-)4% to 529 Kt in Q4 FY20 ; Domestic sales sharply declined by (-)19% to 376 Kt in Q4 FY20

The Global FRP demand will remain soft in the cyclical end markets resulting from the COVID pandemic. Industries like beverage and food packaging, pharma will benefit in the current situation as well as post COVID, leading to higher demand of flat rolled products in these segments.

Beverage can sheet market has historically been a relatively recession resistant product and is expected to remain resilient in North America and Europe. With the increasing preference for sustainable beverage packaging with driving mix shift towards aluminium will continue to unfold demand of beverage can sheets.

Currently, Global Automotive industry has seen adverse effects due to COVID 19 as some automakers have temporarily ceased production. Aluminium FRP demand for the automotive body sheets driven by light-weighting trends in the transportation segments, premium vehicles and EVs continue to see traction and some positive signs of revival soon.

In aerospace segment, significant reduction in production is seen as consumer travel is expected to drive lower demand into next year. FRP growth in the aerospace segment remains intact with a higher-order backlog from all global aircraft manufacturers.

Domestic FRP demand has contracted by (-) 9% in Q4 FY20 and (-) 3% in FY20 YoY, due to subdued demand in transportation and B&C and Electrical sectors. Currently, the industries like food packaging, pharma, beverages, Litho etc. is pushing the domestic demand of FRP in India and this is expected to grow further.

Opportunities and Threats

A considerably wide geographical presence and reach, both domestic and international, have helped the Company to attempt de-risking its business and meet the risks with suitable precaution. The Company is focused on enhancing value added products. Improvement in safety performance is of utmost priority, for which the Company has constantly been initiating measures to avert accidents. The Company has sales and technical servicing offices at Delhi, West Bengal and Kerala.

Business

Your Company manufactures two major products:

- Aluminium rolled products in coil and sheet form
- Aluminium Alloy Ingots

Your Company has vertically integrated certain parts of our operations across its product range. This has resulted in a reduction in manufacturing costs, greater control on quality and an expansion in the range of products.

Overview of Operations

Results

During the year under review, the total revenue of your Company stood at ₹ 28,129.54 lacs, as compared to ₹ 27,560.80 lacs during the year ended on March 31, 2019. The Company made a profit of ₹ 571.64 lacs as compared to a profit of ₹ 728.16 lacs during the year ended on March 31, 2019.

Projection for the Financial Year 2020-2021

The company continues to follow the various steps initiated in the previous financial year, for improving the profitability in the future years. These steps include:

- Undertaking major overhauling and revamping of Plant & Machineries to reduce cost of conversion.
- Initiating steps for cost reduction by curtailing certain costs like power & fuel, manpower, administration and scheduled repair & maintenance. Rationalizing contractual and also own employees to reduce manpower cost.
- Initiating steps for improving quality of Finished Products, to help in increasing the top line and customer satisfaction, leading to improved margins.
- Focusing on value added products by marketing color coated Aluminium Sheets /Coils, Embossed Sheet/Coils.
- The Company has successfully established a wide market in developed Countries like USA, Europe & Middle East which is underlying reason for expanding the production capacity by installing a new Caster in its Haldia Unit.
- Trying to develop new suppliers of raw materials in Australia, UK, and other European countries for taking advantage of competitive rates and better quality.
- The Company is also expanding its domestic market Size with concrete focus on expanding sales in Northern and Southern Region of India.

- The Company has established a good market acceptance of our products in both Domestic & Export Market by delivering quality products.

Risks and Concerns

Your Company is actively though cautiously considering, growth opportunities and new markets for its products. The Company is exposed to a number of inherent market risks from its normal business activities. These risks include changes in raw material prices, foreign currency exchange rate, interest rate which may adversely impact the Company's financial assets, liabilities and/or future cash flows. The Company is trying to mitigate these risks by carefully planning an optimum sales mix, product diversification, innovation and penetration of domestic and international markets and active treasury management, Further cost saving measures across all segments of the Company, would help in improving the margins in an otherwise difficult market.

Internal Control System

The Company has an efficient system of internal controls which helps it to maintain both internal controls and procedures to ensure all transactions are authorized, recorded and reported correctly and also ensures proper disclosure and protection of physical and intellectual property. A firm of Chartered Accountants has been appointed by your Company as Internal Auditors for independently evaluating the adequacy of the internal controls on a regular basis. For effectiveness and transparency, the management duly considers and takes appropriate action on the recommendations made by Statutory Auditors, Internal Auditors and by Management Committee / Audit Committee of the Board of Directors. The company is operating on SAP Platform in order to have proper internal control procedure with the necessary authorization and "maker and checker" concept. This helps in correct recording of transactions and timely elimination and rectification of errors. The Company has appointed consultants/ professionals to conduct Cost Audit and Secretarial Audit and observations made, if any, are reviewed by the Management periodically and remedial actions initiated.

Key Financial Ratios

In accordance with SEBI (Listing Obligations & Disclosure Requirements) (Amendment) Regulations, 2018, the Company is required to give details of significant changes in Financial Ratios (i.e. change of 25% or more as compared to the immediately previous financial year) along with a detailed explanation thereof.

None of the Ratios has increased by more than 25%.

Human Resources

We consider its human capital a critical factor to our success. Employee relations continued to be cordial throughout the year and recruitments were made commensurate with the needs of business. The Company employs about 313 people in all its facilities. The Company has drawn up a comprehensive human resource strategy, which addresses key aspects of human resource development such as:

- A fair and objective performance management system linked to the performance of the businesses which identifies and differentiates employees by performance level
- Evolution of performance-based compensation packages to attract and retain talent within entities

Key initiatives with respect to Stakeholder relationship

A Stakeholder's relationship committee is formed for reviews of statutory compliances and services relating to security holders, dividend payments and performance of Registrar and Transfer Agents. No complains was raised or received from any shareholders during the year.

Finance Cost

Finance Cost, during the year under review stood at ₹ 1,256.91 lacs, as compared to ₹ 905.34 lacs during the period ended on March 31, 2019. This increase is on account of increased investment by the Company in production related activities.