

2.1 Annexure I - to the Board's Report 2019-20

Management Discussion and Analysis

1. INDUSTRY STRUCTURE & DEVELOPMENTS:

The Indian economy grew at 4.2 per cent in 2019-20, lower than the 6.1 per cent figure registered in 2018-19, as the Covid-19 pandemic adversely impacted economic activity in the last month of the fiscal year, especially manufacturing and construction. Economic activities across India have taken a hit due to the ongoing COVID-19 pandemic. Businesses and industries have remained shuttered for over two months now amid the ongoing nationwide lockdown. Due to this the economy may slow over the next few months owing to supply disruptions, fall in consumption demand, and stress on the banking and financial sectors. The World Bank released its Global Economic Prospects report. It expects India's gross domestic product (GDP) to contract by 3.2% in 2020-21. There will be a moderate recovery to 3.1% growth in 2021-22.

1.1 CHEMICAL INDUSTRY : CHINA FACTOR

The global chemical industry is worth US\$4 trillion, of which China holds 38% share, while India is only at US\$160bn. Similarly, in the specialty chemicals industry, China is several-fold larger than India. Certain basic chemicals required for downstream applications are still not produced in India and are imported. Hence, the world will continue to buy from China for at least the next few years.

Definite opportunities emerging in the medium-term

Beyond July-2020, there are definite chances that the global chemical industry begins to shift its sourcing away from China. However, China is too important to be side-lined, for at least the next few years, since there are unlikely to be large capacities available with competing countries in the short-term. Nevertheless, global customers may explore the possibility of additional contract manufacturing or outsourcing from India. The key question is how fast Indian companies can respond.

1.2 SPECIALITY CHEMICALS INDUSTRY :

The specialty chemicals constitute 22% of total chemicals and petrochemicals market in India. As of FY18, the total market size is around USD 35 bn. India is also gaining traction as an outsourcing hub for Specialty Chemicals manufacturing Segments within specialty chemicals vary in attractiveness and witness varying levels of competitive intensity, margin profiles, defensibility against raw material cost movements, and growth (including growth of the end-user segment in many cases) In 2019, the Indian Specialty Chemical market is valued at USD 35 billion. Indian Specialty Chemical Industry is expected to grow at 10% till 2025.

1.3 ACTIVE PHARMA INGREDIENTS (API) INDUSTRY: GLOBAL & INDIAN

The pharmaceutical ingredients accounted for the largest specialty chemicals market share in 2019, and is anticipated to continue this trend during the forecast period. The spending on healthcare has grown at a rapid pace in recent years worldwide and this has directly benefited the Active Pharmaceutical Ingredients (API) market. According to Statistics MRC, the Global Active Pharmaceutical Ingredients market is expected to grow from \$129.12 billion in 2015 to reach \$198.8 billion by 2022 with a CAGR of 6.4%.

DOMESTIC

The coronavirus pandemic has laid the need for an API manufacturing hot-spot other than China, and India has the potential to be one. While the production of generic drugs is bound to see some significant transformation as different countries are evolving to become active producers, India can step up and develop infrastructure for large scale manufacturing of APIs, thus enabling the India pharma sector to dominate the world market in future. It has presented India with a golden opportunity to build world-scale API industry and compete successfully with China in the global markets. If India builds a world-class and world-scale API industry, its export which is presently around \$5 billion (25 per cent of total 2019-20 exports of \$19-20 billion), can be scaled up to ultimately reach and exceed generic drug exports within 10 years.

2. OPPORTUNITIES & THREATS:

Strength & Opportunities

Your Company has been continuously striving to keep its costs to minimum possible to aggressively compete with Indian & global competitors. Your Company continues to work on economies of scale. The company falls under MSME sector due to which it enjoys various incentives. Company has great advantage of highly motivated manpower & this helps in continual process improvements & cost reductions. Due to in-house technical expertise, your Company has strength of versatility in product range & able to stand in the market competitively. Company being process driven, rather than product driven, gives strength to absorb sudden impacts, if any, on our various product demands. Our focus is on quality of product, long-term relationships, stable and sustainable operations and global best practices for suppliers and customers with end applications in APIs, dyes and pigments.

Your Company has in place greener technologies like CNG fired boilers, economizers etc. to save power and fuel costs. However, Variation in crude oil prices would always be area of concern. The Company was able to cope up with these pressures in the past due to strong operational efficiency. Company has successfully implemented ISO 50001:2018 and has got certification from the coveted BSI (British Standards Institute). The Company is now Energy Management Systems compliant and aims for continual improvement in energy performance, including energy efficiency, use and consumption.

3. RISKS AND CONCERNS:

Global Recession due to CoVID 19 pandemic : The novel coronavirus disease (COVID-19) pandemic and ensuing lockdowns in several parts of the world have led to a recession unmatched in eight decades. Combined with structural bottlenecks, this will amplify the long-term damage of deep recession associated with the pandemic. This would severely impact the demand side of the equilibrium and affect supply chains across the country and world. Your Company may be affected to that extent by the global recession.

Regulatory and environment: Like all chemical companies, your Company is subject to central, state and local laws and regulations relating to pollution, protection of the environment, greenhouse gas emissions, and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. Other areas of risks are accidents, fire or mishaps. However the Company is adequately insured and health and safety measures are always prioritised. Any major change in Environment Policy by Government can affect the production on short term basis.

Volatility in Raw Materials Prices: Volatility in the global prices of raw materials is also a major challenge faced by the chemical industry. Sharp corrections in the crude oil prices and prices of various raw materials procured by the Company can influence bottomline.

Slowdown in End User Industries: The slowdown in growth of industries such as Pharmaceuticals, Dyes & Pigments amongst others could impact the overall growth. However, your Company has an ability to shift the manufacturing towards those products which enjoy better demand-supply dynamics thereby sustaining profitability and insulating the operations from slowdown in a particular product category.

4. SEGMENT WISE PERFORMANCE:

Your Company operates in Single segment i.e. intermediates for bulk Drugs (API), Dyes & pigment industries segment. Your Company also had best capacity utilization in Chlorosulfonation & Oxidation facilities - manufacturing intermediates for bulk Drugs (API), Dyes & pigment industries.

5. OUTLOOK:

As we all are aware, the National Economy and the Businesses are going through difficult times due to the global pandemic, which has affected one and all. Your company, being under Essential Services Sector, was permitted to operate with restrictions during the lock down period. As a result, we partially resumed our production operations since 14th April, 2020, with limited workforce. However operational activities slowly improved and now, company is fully operational as normal from the month of June, 2020. Your Company operated at low capacity during the lockdown period, hence there has been corresponding loss in production and business during the period. Our one of the end users, the Pharma Industry's demand is stable and improving and we expect to recover from the impact of Lockdown closure in this fiscal year. There have been no impact/bottlenecks in import of major raw materials and exports of finished products and the Company does not foresee any bottlenecks in the future also. None of the assets of the Company have been impacted or impaired by the pandemic.

Company is hopeful of obtaining requisite Environmental clearances during the year, which can enable company to add capacities & grow. Overall the outlook of Company in this pandemic situation is stable and positive.

6. ENVIRONMENT HEALTH & SAFETY:

Your Company has appropriate Waste Management Systems for Air, liquid & solids. Safe disposal of waste, treating effluents to manufacture an eco-friendly by-product and In-house team ensuring pollution control & energy conservation - are some of the ways adopted by Company to operate in an eco-friendly manner. Continuously, the Company has used techniques to reduce the effluent generation in the process, utility and domestic areas across units to reduce the entire effluent stream. Environmental requirements are incorporated into the plant design right from the preliminary stage of a process. Air scrubbers, dust filters, fire protection systems and Effluent Treatment Plants are in place & well maintained. Your Company is also member of CETPs for their various liquid effluents. Regular safety drills ensure that readiness for safety gets top priority. The Company will strive to further improve to create safer working conditions for the workers.

7. INTERNAL CONTROL SYSTEM :

Your Company has sound and adequate internal control systems commensurate with its size and nature of business. We constantly upgrade our systems for incremental improvements. The Audit Committee of the Board periodically reviews these systems. These systems ensure protection of assets and proper recording of transactions and timely reporting. Internal audit is conducted by an independent professional firm on regular basis. The Audit Committee also regularly reviews the reports of the Statutory Auditors, and Internal Auditors. The Company has successfully implemented ERP solution in order to enhance the internal control systems in procurement, planning, production, dispatch, operations and accounts & finance departments.

8. FINANCIAL & OPERATIONAL PERFORMANCE :

Your Company has grown progressively on year-to-year basis through rise in sales volume and profitability and has a stable outlook for the future. During the FY 2019-20, the Company continued to maintain the Topline (Revenue) and registered a growth of around 4.6% and the Bottomline growth by 14.26% as compared to FY 2018-19. During the year production capacity was optimally utilized with better sales realization and selection of niche products for increasing profitability . We have been able to improve our Operating Profit Margin (OPM 26.60%) and Net Profit Margin (NPM 18.53%) this FY 2019-20 by around 8% and 10% respectively as compared to previous FY 2018-19. The Net Profit and EPS registered a growth of 14.26%. Value in our industry is all about creating and delivering quality, while keeping costs in check and almost every value focused agency in our sector is working towards that goal. We are working not only towards top line growth, but also for bottom line growth.

For the coming year, although the overall economy and business scenario is grim across all sectors, but we foresee the outlook of your company as quite positive and stable. With a combination of efficient planning, expanding production, timely delivery, and the relentless efforts we shall definitely do our best to overcome all odds and deliver yet another fulfilling year ahead.

9. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED:

Human capital has always been the most important and valuable asset for the Company. Your Company continued its activities during the year in a cordial atmosphere with utmost co-operation amongst employees and the management. As of the date of the report, the total number of the employees of Company is 76. The management is committed to promote safety, occupational health and proper environment in designing, planning, training and completion of all tasks. Regular trainings are imparted to workmen in various areas.

**For and on behalf of the Board of Directors
CHEMCRUX ENTERPRISES LIMITED**

**Sd/-
GIRISHKUMAR SHAH
CHAIRMAN**

**Place: Vadodara
Date: July 10, 2020**