Management Discussion and Analysis Report

Our organizational functioning - Manufacturing – Cutting Tools (Metal cutting machine tools) - catering to the needs of automobile industry and also electrical fittings industry.

Preface

Cutting Tools Industry plays a major role in production of automobiles, which includes 2 wheelers, 4 wheelers & heavy commercial vehicles. Apart from automobiles, there are many ancillaries to supply to these auto companies and also expanding their capacities for exports.

Automobile industry has been seeing a very good growth during the last few years and it is presumed that going forward this tempo of growth will be maintained in the coming year

Our Future Prospective

Growth will depend on various factors which are summarized hereunder:

Segregating positive Factors

♦ Global Economic Overview

World growth strengthened in 2017 to 3.8 percent, with a notable rebound in global trade. It was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth is expected to tick up to 3.9 percent this year and next, supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States. The preliminary outcome for global growth in 2017 was 0.2 percentage point stronger than forecast in the October 2017 World Economic Outlook (WEO), with upside surprises in the second half of 2017 in advanced as well as emerging market and developing economies.

Resurgent investment spending in advanced economies and an end to the investment decline in some commodity exporting emerging market and developing economies were important drivers of the uptick in global GDP growth and manufacturing activity.

Among advanced economies, large exporters, such as Germany, Japan, the United Kingdom, and the United States, contributed strongly to the recovery in exports, while the recovery in imports was broad based, except in the United Kingdom. Among emerging market and developing economies, as shown in the rebound in export growth was particularly strong in emerging Asia, especially China.

The forecast for 2018 and 2019 is stronger than in the October 2017 WEO by 0.2 percentage points for each year, with positive revisions compared with the October 2017 WEO for emerging market and developing economies and especially for advanced economies. The global effects of US fiscal policy changes account for almost half of the global growth upgrade for 2018–19 compared with October.

♦ Growth Outlook—Emerging Market and Developing Economies

Growth in emerging market and developing economies is expected to increase further—from 4.8 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019. Although the high growth rate reflects primarily continued strong economic performance in emerging Asia, the projected pickup in growth reflects improved prospects for commodity exporters after three years of very weak economic activity.

This reflects some modest further strengthening in economic growth in commodity exporters, though to rates much more modest than over the past two decades; a steady decline in China's growth rate to a level that is still well above the emerging market and developing economy average; a gradual increase in India's growth rate as structural reforms raise potential output; and continued strong growth in other commodity importers.

Growth in India is projected to increase from 6.7 percent in 2017 to 7.4 percent in 2018 and 7.8 percent in 2019 (unchanged from the October WEO), lifted by strong private consumption as well as fading transitory effects of the currency exchange initiative and implementation of the national goods and services tax. Over the medium term, growth is expected to gradually rise with continued implementation of structural reforms that raise productivity and incentivize private investment.

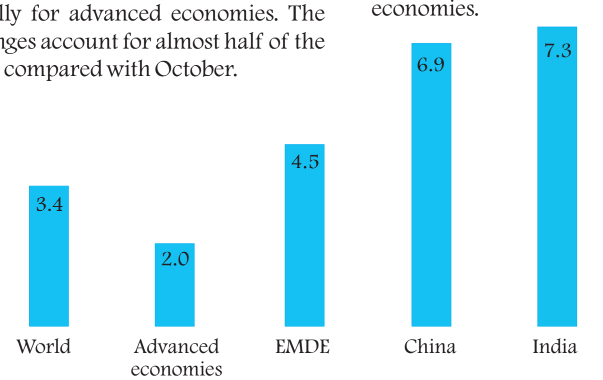
Source: https://www.imf.org/~/media/Files/Publications/WEO/2018/April/c1.ashx

♦ GDP: Global and Domestic scenario - An overview

Growth in the South Asia region is forecast to accelerate to 6.9 percent in 2018 from an estimated 6.5 percent in 2017. Consumption is expected to stay strong, exports are anticipated to recover, and investment is on track to revive as a result of policy reforms and infrastructure upgrades. Setbacks to reform efforts, natural disasters, or an upswing in global financial volatility could slow growth. India is expected to pick up to a 7.3 percent rate in fiscal year 2018/19, which begins April 1, from 6.7 percent in FY 2017/18.

Source: https://www.worldbank.org/en/news/press-release/2018/01/09/global-economy-to-edge-up-to-3-1-percent-in-2018-but-future-potential-growth-a-concern.

With Gross Domestic Product (GDP) growth averaging 7.5 per cent between 2014- 15 and 2016-17, India can be rated as among the best performing economies in the world on this parameter. Although growth is expected to decline to 6.5 per cent in 2017-18, bringing the 4-year average to 7.3 per cent, the broad story of India's GDP growth to be significantly higher than most economies of the world does not alter. The growth is around 4 percentage points higher than global growth average of last 3 years and nearly 3 percentage points more than the average growth achieved by emerging market & developing economies.



The Indian auto-components market contributes almost seven per cent to India's GDP and employs as many as 19 million people. The auto components sector has been observing robust growth, and turnover is anticipated to reach US$ 200 billion by FY26 from US$ 43.5 billion in FY17. Turnover of auto-components industry is expected to grow to US$ 47-49 billion in FY18. India's exports of auto components could account for as much as 26 per cent of the market by 2021. Auto-component production in 2018-19 is expected to increase 12-14 per cent in FY19, on the back of robust growth in domestic and export markets. With such robust growth in GDP, Auto sales are expected to grow as compared to last year.

- Indian Economic Overview

India has emerged as the fastest growing major economy in the world as per the Central Statistics Organisation (CSO) and International Monetary Fund (IMF) and it is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. India's GDP is estimated to have increased 6.6 per cent in 2017-18 and is expected to grow 7.3 per cent in 2018-19.

MARKET SIZE

India's gross domestic product (GDP) at constant prices grew by 7.2 per cent in September-December 2017 quarter as per the Central Statistics Organisation (CSO). Corporate earnings in India are expected to grow by 15-20 per cent in FY 2018-19 supported by recovery in capital expenditure, according to JM Financial.

The tax collection figures between April 2017 and February 2018 show an increase in net direct taxes by 19.5 per cent year-on-year and an increase in net direct taxes by 22.2 per cent year-on-year.

India has retained its position as the third largest startup base in the world with over 4,750 technology startups, with about 1,400 new start-ups being founded in 2016, according to a report by NASSCOM.

India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute.

India's foreign exchange reserves were US$ 422.53 billion in the week up to March 23, 2018, according to data from the RBI.

ROAD AHEAD

India's gross domestic product (GDP) is expected to reach US$ 6 trillion by FY27 and achieve upper-middle income status on the back of digitisation, globalisation, favourable demographics, and reforms.

India is also focusing on renewable sources to generate energy. It is planning to achieve 40 per cent of its energy from non-fossil sources by 2030 which is currently 30 per cent and also have plans to increase its renewable energy capacity from 57 GW to 175 GW by 2022.

India is expected to be the third largest consumer economy as its consumption may triple to US$ 4 trillion by 2025, owing to shift in consumer behavior and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by PricewaterhouseCoopers.

Source: https://www.ibef.org/economy/indian-economy-overview

- Stability of Government at Centre

It is necessary that in the coming election, we get a stable government at the Centre so that business policies and other activities continue with the same momentum as prevailing now.

The crucial initiatives undertaken by the Government like promoting cash-less economy through digitalization, relaxing FDI norms, making business scenario more facilitative, fast-tracking projects, enhancing focus on infrastructure sector, and implementation of Goods and Services Tax are all expected to improve the country's competitiveness.

Adverse Factors

- Crude Oil Prices

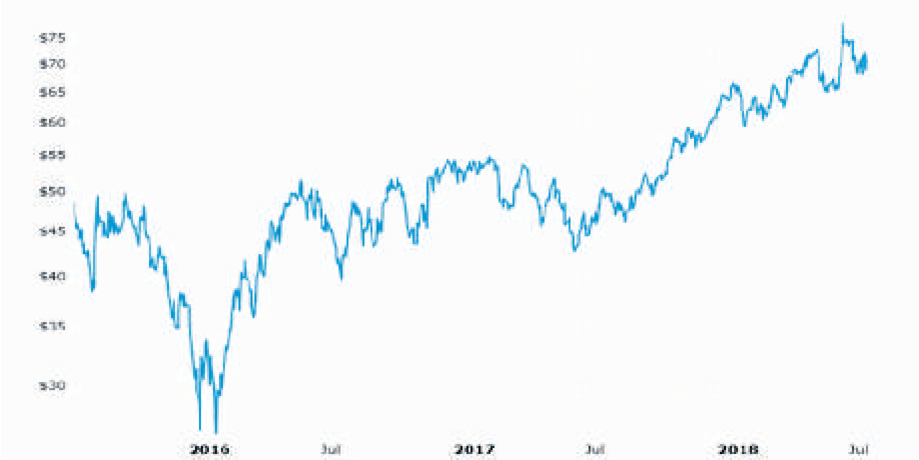
Crude Oil prices have been increasing steadily during the past one year. It is necessary that crude oil prices do not escalate further because Indian economy depends mainly on imported crude. Balance of payment situation in India gets disturbed whenever crude oil breach the 100$ mark.

With a few exceptions, there was a nearly constant increase in the price for one barrel of Brent Crude oil in the last fifteen years. For example, the average price per barrel stood at nearly 25 U.S. dollars in 2002. Until 2012, this price increased to almost 112 U.S. dollars. In 2010, however, the price fell under the mark of 100 U.S. dollars. The price in 2014 saw a rapid decrease, with monthly crude oil prices falling under 65 U.S. dollars per barrel, then fell even further to a recent low of 32.18 U.S. dollars per barrel in February 2016. Since then, prices have increased gradually.

Source: www.statista.com/statistics/262861/uk-brent-crude-oil-monthly-price-development/

Interactive chart showing the daily closing price for West Texas Intermediate (NYMEX) Crude Oil over the last 10 years.

The prices shown are in U.S. dollars. The current price of WTI crude oil as of July 30, 2018 is $71.19 per barrel.



Data source:"www.macrotrends.net"

Crude Oil Prices will affect the Indian Economy to some extent. However Consumer spending on Automobiles would not be affected till the crude oil price does not touch the benchmark of $ 100 barrel.

- Interest Rates

Because of inflation and crude oil prices, Reserve Bank of India has started increasing rates and such increases normally reflect on the cost of borrowing for purchase of houses, automobiles, etc., which will affect automobile sales to some extent.

- Domestic Sales

Since our industry is mainly dependent on automobile and auto ancillary industries, our growth is consequently linked to the future of these industries which is bright as of now. Detailed outlook of automobile industry and Auto component industry forms part of this report under "Outlook of Industry".

Outlook of Industry

In spite of the above factors, which may affect the overall economy, we are confident that the automobile industry in India will continue to do well and will have a sustained performance at a minimum growth rate of 12% per annum.

Detailed outlook of automobile production trends and also automobile sales potential hereunder:

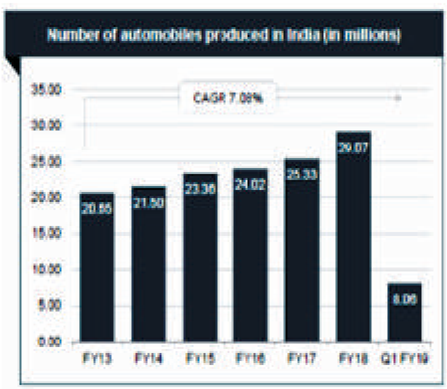
- Automobile Industry

The Indian auto industry became the 4th largest in the world with sales increasing 9.5 per cent year-on-year to 4.02 million units (excluding two wheelers) in 2017. It was the 7th largest manufacturer of commercial vehicles in 2017. Source: https://www.ibef.org/industry/india-automobiles.aspx

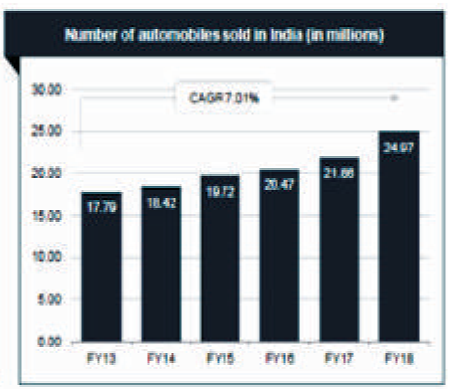
The Two Wheelers segment dominates the market in terms of volume owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector.

India is also a prominent auto exporter and has strong export growth expectations for the near future. Overall automobile exports from India grew at 6.86 per cent CAGR between FY13-18. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the two-wheeler and four-wheeler market in the world by 2020.

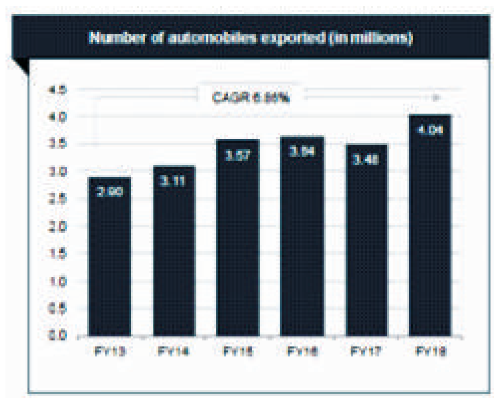
- MARKET OVERVIEW



Number of automobiles produced in India (in millions)



Number of automobiles sold in India (in millions)

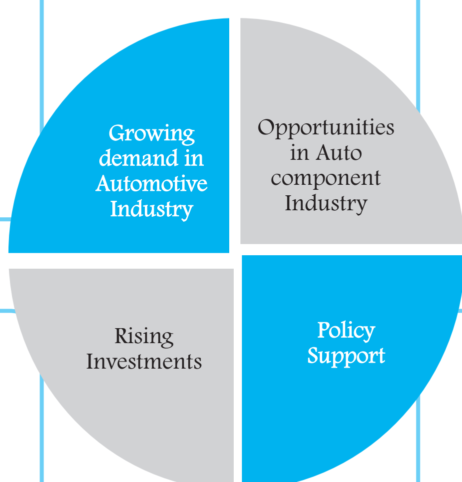


Number of automobiles exported (in millions)

- ADVANTAGE INDIA

- Strong growth in demand due to rising income, middle class and young population.
- Indian automotive industry targeting to increase exports of vehicles five times in 2016-26.
- Domestic automobiles sales increased at 7.01 percent CAGR between F.Y. 13-18.

- Because of cost advantage India is becoming Hub for Auto Components.
- Quality of Auto Component manufacturing in India is good, Foreign Buyers are more inclined in this segment and during the coming years is expected at CAGR of 10%.



- India has significant cost advantages; auto firms save 10-25 % on operations vis-a vis Europe and Latin America.
- Cumulative FDI inflow of around US $ 18.76 billion in automobiles sector during April 2000 - March 2018.

- Automotive Mission Plan: 2016-26 shows clear vision of government.
- The Government aims to develop India as a global Manufacturing centre.
- Reforms like GST to help boost the sector's growth.
- Induction centre to be set up for startups working in electric vehicles space.

- Auto Component Market

The Indian auto-components industry has experienced healthy growth over the last few years. Some of the factors attributable to this include: a buoyant end-user market, improved consumer sentiment and return of adequate liquidity in the financial system. The auto-component industry of India has expanded by 14.3 per cent because of strong growth in the after-market sales to reach at a level of Rs 2.92 lakh crore (US$ 43.55 billion) in FY 2016-17. The industry is further expected to grow to US$ 47-49 billion in FY18.

The auto-components industry accounts for 2.3 per cent of India's Gross Domestic Product (GDP) and employs as many as 1.5 million people directly and indirectly each. A stable government framework, increased purchasing power, large domestic market, and an ever increasing development in infrastructure have made India a favorable destination for investment.

- Revenues have risen from US$ 26.5 billion in FY08 to US$ 43.5 billion in FY17 at a CAGR of 5.66 per cent during FY08-17.
- The market size for auto component sector increased by 11.5 per cent reaching to US$ 43.5 billion in FY17 from US$ 39 billion in FY16.
- As per Automobile Component Manufacturers Association (ACMA) forecasts, automobile component exports from India are expected to reach US$ 70-billion by 2026 from US$ 10.9 billion in FY17. The Indian auto component industry aims to achieve US$ 200 billion in revenues by 2026.
- The industry is expected to post a 13-15 per cent growth rate in FY18, on the back of robust growth in domestic passenger vehicle, commercial vehicle, tractor and two-wheeler segments.^

Outlook for the Company

Your Company is taking initiatives to reduce cost of production by introducing more and more automation. Advanced inspection equipment has also been added which will consistently enhance quality of our products. Also there have been continous efforts from our Production team for increasing our product range and inventories so that we shall be in a better position to serve the customers.

The Company is regularly trying to get customers for export business. Currently we are exporting intermittently to a few customers in Germany, Thailand, Saudi Arabia, South Africa & UAE. However, because of severe competition from China, we are unable to get any major accomplishments in exports.

Nevertheless, the Company is now more focused on getting customers who are looking for application taps with special geometries, where the prices are good. Towards this objective, the Company participated in EMO exhibition held in Hannover, Germany, in September 2017. We hope that going forward with the enormous advantage India is enjoying at the moment, we will be in a better position to get major breakthroughs globally.

Since major part of Cutting Tools produced by the Company goes into Automobile industry and Auto Component manufacturing, we expect that in coming year the growth will be robust.

With the steady growth your Company will get benefit of economies of scale therefore by reducing cost of manufacturing. Your Company is also increasing customer base and also adding new products and improving levels of finished goods inventory to provide better services to our existing customers.

Opportunities and Threats

The growth of global OEM sourcing from India and the increased indigenization of global OEM's is turning the country into a preferable designing and manufacturing base. India is expected to become the fourth largest automobiles producer globally by 2020 after China, US and Japan. Growing working population, rapid urbanization, boost in rural economy and rising middle class income are expected to remain key demand drivers. Relative to competitors, India is geographically closer to key automotive markets like the Middle East and Europe.

Competition among industry players is intense as government has already deregulated the sector. Increasing number of foreign firms, are increasing their presence and many more are planning to enter this high potential market. Cheaper imports of components from China are increasing. The threat is medium, given the concentration of Industry clusters in specific strategic centers. However, now the Automobile industry wants proper services at local levels and materials are required just in time. We therefore have to keep specific inventories for different customers and have to supply to them immediately on the same day when we get the order. Because of superior quality and prompt services we shall be able to overcome threats from imported tools in the years to come.

Risks and Concerns

The Company is exposed to external and internal risks associated with the business. The operations of the Company are directly dependent on the Automotive Industry and the cyclical nature of the industry affects us. General Economic conditions impact the automotive industry and in turn our operations as well. The Company is exposed to strong competitive pressures, both domestic and overseas. Company's established reputation, close customer relationships, ability to provide higher level of engineering design support and relentless drive for improvement gives us a competitive edge. We are also exposed to financial risk from changes in interest rates, foreign exchange rates and commodity prices.

We are fully aware of risks and a systematic risk identification and mitigation framework is in place to ensure that a suitable action plan is drawn up to mitigate the same. The Company has virtually no control over external risks such as a general down turn in the economy, new regulations, government policies and interest rates.

Internal control systems and their accuracy:

Considering the size and nature of the business, presently adequate internal control systems are in place. However, as and when company achieves further growth and higher level of operations, company will review the internal control system to match with changed requirement.

The company has proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against unauthorized use or disposition and that transaction are authorized and recorded correctly.

The company has constituted Audit Committee consisting of non-executive and independent Directors to look into various aspects of Accounts. The company has a clearly defined organization structure in place.

- Discussion on financial performance with respect to operational performance.

Revenue

Gross Revenue from main business operations of ₹ 53.89 crores was recorded in the financial year ended March 31, 2018 as against revenue of ₹ 44.73 crores in the previous year, with a growth of 20.48%.

Profits

The company has earned Profit before depreciation, Interest and Taxes (PBDIT) of ₹ 29.04 crores during the financial year under review over the previous financial year's PBDIT of ₹ 20.83 crores. The profit after tax for the financial Year 2017-18 was ₹ 19.88 crores as against profit after tax of ₹ 11.85 crores for the financial year 2016-17.

Earnings per share (EPS)

The basic and diluted EPS of ₹ 10 paid up share are ₹ 111.82 and ₹ 111.82 respectively for the financial year ended March 31, 2018. The previous year's basic and diluted EPS of ₹ 10 paid up share is ₹66.62 and ` 66.62 respectively.

Dividend

Your Board of Directors is pleased to recommend final dividend of ₹3.00 per equity share, on 1778550 total outstanding equity shares of ₹10/- each, amounting to ₹ 53, 35,650/- in respect of the financial year 2017-18 as against dividend of ₹2.00 per equity share, on 1778550 total outstanding equity shares of ₹10/- each, amounting to ₹ 35, 57,100/- in respect of the financial year 2016-17.

Reserves and Surplus

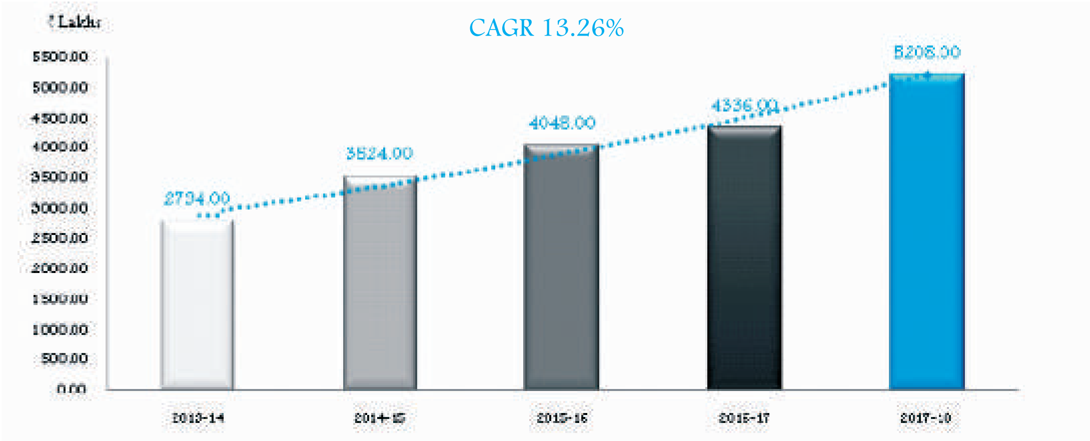
The Reserves and Surplus of the Company as on 31st March 2018 stood at ₹ 102.15 crores as against ₹ 82.68 crores in the previous financial year.

Net worth

During the financial 2017-18 the company has achieved and recorded net worth of ₹ 103.93 crores as against ₹84.45 crores in the previous financial year.

During the bottom line period of the year under review, the Company has seen significant improvement due to changes in product mix and market penetration, the growth in the top line has been bright.

SALES



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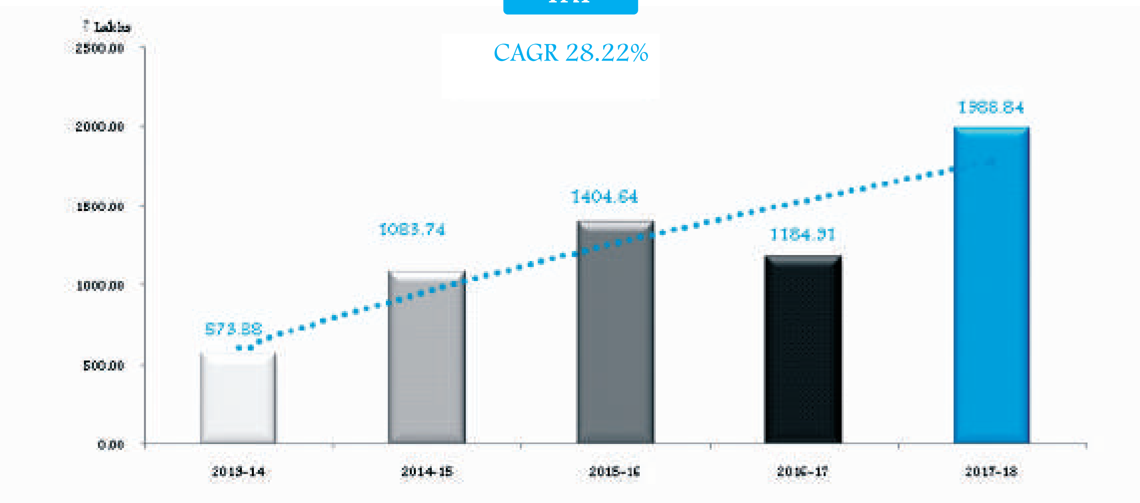

Segment wise or product wise performance

The company has only two reportable segments viz. Engineering Tools and Power on Consolidation basis. Detailed reporting along with figures relating to each reportable segment is disclosed as a part of the notes to the accounts in Note no. 38.

Material developments in Human Resources / Industrial Relations front, including number of people employed

The company believes that human resources will play a key role in its future growth. Planned efforts are made to develop and retain talent. Learning and development initiatives focus on developing the professional capabilities. The company continues to provide growth opportunities to internal talent by assigning them higher responsibilities with suitable exposure and training. The company continues to maintain positive work environment and constructive relationship with its employees with a continuing focus on productivity and efficiency.

Cautionary statement

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be forward looking statements. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include, amongst others, economic conditions affecting demand/supply and price conditions in the markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and incidental factors.

The information in this section is based on Industry sources and publications. Industry sources and publications generally state that the information contained therein has been obtained from sources it believes to be reliable, but their accuracy, completeness and underlying assumptions are not guaranteed and their reliability cannot be assured.