

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Scenario – Indian & Global and Outlook

The Indian Economy is one of the fastest-growing emerging economies and is the 5th Largest economy in the world in terms of GDP. Owing to various global as well as domestic factors, India's GDP growth declined to 4.2% in FY 2019-20. This decline was primarily driven by slowdown in the manufacturing and construction sectors.

The Economy is expected to contract to a serious negative growth in FY 2020-21. Travel, tourism, hospitality, retail, auto and entertainment sectors are severely impacted.

The Indian government has announced a stimulus package of ₹ 20 lakh crores to help the economy recover, with special focus on helping migrant labour and the MSME sector. Several measures are being adopted to generate employment and create demand for products and services across all the sectors.

In February 2020, the World Health Organisation declared COVID-19 as a pandemic, as the virus quickly spread to more than 200 countries around the world. The global economy has witnessed a slump and is expected to contract to a negative growth of 5.2% in 2020 as per June '20 IMF report.

Economies all over the world are recovering but the recovery is slow and uncertain due to the pandemic.

Industry Structure and Development

The Private security sector is among the fastest growing sectors in India which has witnessed significant growth since 2010. Demand for private security services is likely to increase over 10% annually during the next decade. The demand is fuelled by increasing rate of urbanisation and industrialisation. Significant investments made on infrastructure projects, Industrial and IT parks, airports, metro rail networks and other public utilities have created a direct demand for private security services.

House Keeping and other Soft Services generate huge employment after security services. This sector is expected to register a high growth rate for several years. The market is highly fragmented and is dominated by a large number of local players. However, with the growing formalisation of the economy, the proportion of organised players is steadily increasing.

Kapston has recently stepped into a new business vertical i.e staffing services. The Indian staffing industry has been

growing in a big way, especially in the area of being a third-party payroll service provider.

Opportunities & Threats

Opportunities

“Make in India” mission launched by the Central Government to make the country self-reliant is going to provide ample growth opportunities to our Company.

The Occupational Safety, Health and Working Conditions Code, 2019 which was introduced in the Lok Sabha by the Ministry of Labour and Employment is expected to drive most of the business organizations to opt for providers of facility management services both for short term and long term needs. Emerging need for “Gated Community” living as a new aspiration is providing sustained demand for integrated facility management services in all major towns and it is an opportunity for us.

Threats

The recent tendency of predatory pricing with an intention to eliminate weak players by the big player is a potential threat.

Rapid adoption of technology to reduce dependence on manpower by the clients works against the rate of growth of the industry.

Increase in minimum wages by the Central and State Governments can create a mild financial risk for the company.

Due to the COVID -19 pandemic many people are adopting work from home culture due to which the clients especially those from IT Companies and Educational Institutions may require less number of Facility Management personnel compared to the past.

Challenges

On account of COVID-19 pandemic leading to varying degrees of lockdown, industrial and commercial spaces aren't seeing use and occupancy uniformly, and it may last for quite some time.

Our employees are reluctant to go and work in the establishments like hospitals where the risk for health is high. Our management teams are making extra efforts to motivate the employees to go to work.

High levels of attrition is a usual problem which is addressed regularly.

Many of our employees are also affected by COVID-19 and we continue to handle the issue day in and day out.

Our Strength

Kapston has developed expertise in hiring, training, evaluation and retention of employees to ensure that we provide best services to our clients.

We are having dedicated recruitment teams and training centres which focus on matching employment preference for various job seekers from different states, which benefits both the employee and the Company.

We have strong and dedicated management teams to handle personal problems faced by our employees working in the field.

Segment-wise or Product wise performance

Our revenue from Soft Services (comprising Housekeeping, Office Support, Pantry services etc) has grown by 58% to ₹ 9,499 lakhs from ₹ 6,017 lakhs in the previous year. This segment accounts for 44.5% of our total revenue, up from 41% in the previous fiscal.

Our Security Services business increased to ₹ 11,468 lakhs from ₹ 8,129 lakhs from the previous year, a growth of 41 % year on year. Security services account for 54% of our revenue.

Our Skill Development programs in conjunction with NSDC & Ministry of Rural Development contributed ₹ 371 lakhs as against ₹ 575 lakhs in the previous year.

Internal Control Systems and their Adequacy

Our Company has in place adequate standard operating procedures for ensuring internal controls in the delivery of services. There are procedures laid out with regard to recording and providing reliable financial and operational information and complying with all statutes applicable to our business segments.

Material Development in Human Resource

- i. The total number of personnel including Trainees and Apprentices were 13725 as on March 2019 as compared to 10,500 as on March 2018. Thus we have added about 31% personnel including Trainees and Apprentices among all business segments.
- ii. The back office or 'Non Billable' staff strength has increased from 250 to 291. We have added staff to strengthen our senior & middle management teams.
- iii. In continuing our partnership with NSDC in FY20 we trained as many as 13690 students as against a target of 11820.

Financial Performance

A. Revenue:

Revenue grew by 45% to ₹ 21,347 Lakhs an increase of approximately ₹ 6600 lakhs from the previous financial year.

B. EBITDA:

Correspondingly EBITDA grew by 22.83% to ₹ 1,638 Lakhs an increase of ₹ 304 Lakhs over the previous year.

C. Finance Costs:

Finance costs increased to ₹ 395 lakhs from ₹ 253 lakhs on account of higher working capital, taken for supporting growth.

D. Depreciation:

Depreciation costs increased by approximately ₹ 76 lakhs primarily due to Fixed Assets increase of new corporate office & branch office premises.

E. Taxation During the year, the Company continued to avail the benefit of Section 80JJAA of the Income Tax Act, 1961 as well as a Differed Tax Asset on account of time line differences on Depreciation between IT Act & Companies Act, pursuant to which the Tax expense was ₹ 19.5 lakhs against ₹ 96.6 lakhs in FY 2018-19.

F. Ratio Analysis

	FY 2019-20	FY 2018-19
PAT %	4.78%	5.81%
ROCE	33.90%	28.65%
ROE	29.35%	32.68%
Interest Coverage Ratio	3.63	4.76
Current Ratio	1.47	1.67
Debt Equity Ratio	1.09	0.73

Explanation for change of 25% or more in the above ratio as compared to the previous financial year as per Schedule V of SEBI(LODR) Regulations,2015.

Debt Equity ratio has increased from 0.73 to 1.09 mainly on account of additional working capital limits taken to fund higher revenue growth and a term loan taken toward investments in Fixed Assets for the new corporate office.