

MANAGEMENT DISCUSSION AND ANALYSIS

INDIAN ECONOMY

The Indian economy's growth softened to 4.2% in 2019-20 compared to 6.1% in 2018-19. This can be attributed to slowdown in a number of areas: private consumption, investment in infrastructure and sluggish manufacturing growth and exports. To bring the stability back in economy, the Government undertook various measures such as corporate tax cuts, reduction in repo and reverse repo rates and structural reforms. With these changes implemented; the economy was set for a rebound. But the sudden outbreak of Coronavirus in March 2020, struck the economy hard. As a preventive measure, the Government announced a nationwide lockdown in phased manner. This resulted in temporary shutdown of economic activities. To revive the economy and bring in some breather, the Government has announced a fiscal stimulus worth ₹ 20 lakh crores in mid-May 2020. Broad based in nature, the stimulus focuses on the five pillars of growth – economy, infrastructure, technology-driven system, demography and demand. This may help in encouraging the private investment, boost liquidity in the market and increase investment in infrastructure on a long term.

Outlook

The Coronavirus impact on the economy is anticipated to last longer. In view of this, the Government announced a set of stimulus measures for the immediate short-term, and for the medium term, a set of long-pending reforms in agriculture, labour and other industries. The package aiming at expenditure for poor households/skilled domestic workers, migrant workers, agriculture, a fiscal package for business and credit guarantees and equity infusion to MSME's will positively bolster growth in the long term. Furthermore, this package may strengthen the economy qualitatively and commercially because, it focuses on long-term employment and opportunities. Strategic lifting of the nationwide lockdown in a phased manner can assure restoration of economic activities to bring back the growth rate on the track at the same time ensuring minimum health risks are involved.

INDUSTRY STRUCTURE AND DEVELOPMENT

Indian Specialty chemicals market

Specialty chemicals are a group of high-value chemicals, known for their end-use performance-enhancing qualities. The specialty chemicals market in India

has been flourishing over the past few years owing to increased demand from wide range of end-user industries spanned across food processing, personal care to home care and more.

OleoChemistry

The global oleochemicals market is valued at US\$ 22 billion in 2020 and is expected to reach US\$ 31.9 billion by 2025. Oleochemicals finds application in numerous major fields including polymers, pharmaceutical and personal care, soaps and detergents, food and beverages and others. The oleochemicals industry will benefit from the rising demand for green chemicals, growing application base in personal care and pharmaceutical industry and generous availability of raw materials. Amongst all, soap and detergents hold the substantial market for oleochemicals. Additionally, the use of oleochemical in personal care sector is estimated to grow due to its cost-efficiency and rising awareness/preference of natural chemicals.

(Source: https://www.millioninsights.com/industry-reports/oleochemicals-market?utm_source=wordpress&utm_medium=referral&utm_campaign=Prity_4June2020)

<https://www.businesswire.com/news/home/20200529005201/en/Global-22-Billion-Oleochemicals-Market-2020-2028-->)

Industry Segments

1. Foods

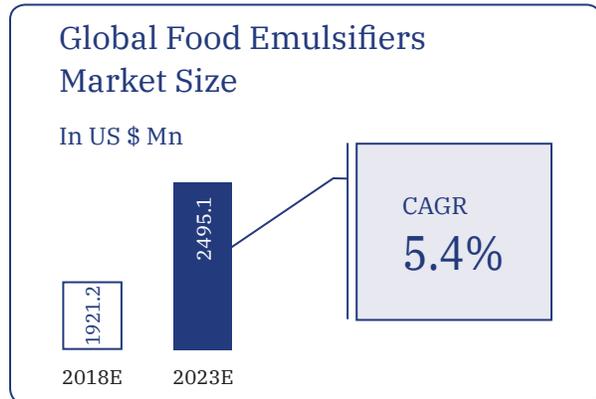
Food additives are substances which are directly added to food for improving the taste, visual appeal, nutritional value, texture, safety and shelf life. Some of the commonly used food additives include flavours and essences, colouring agents, preservatives, emulsifiers, texturizing agents and sweeteners. They are used in dairy & frozen, bakery & confectionery, processed food products & beverages and in other processed foods.

Global scenario

Global plant-sourced food emulsifiers market is expected to reach US\$ 2,495.1 million by 2023 at a CAGR of 5.4% during 2018-2023. The major factors driving the demand for food emulsifiers market are: rise in consumption of processed foods, increasing population with a rising level of urbanisation,

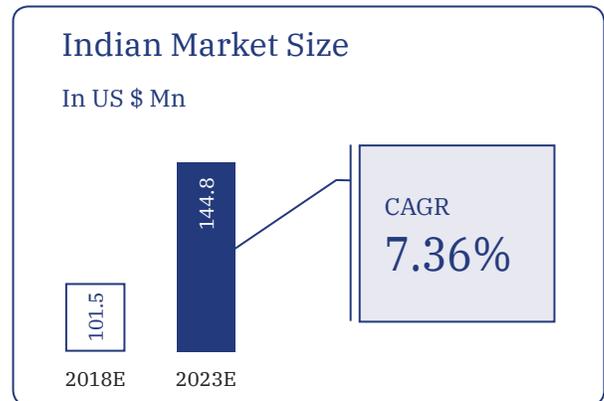
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presence of a broad consumer base coupled with the high growth of the food and beverage sectors and increasing number of end-use applications due to multifunctional attributes of emulsifiers.

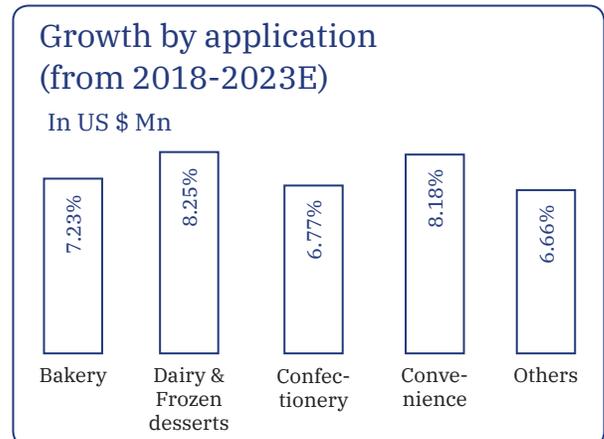


Indian scenario

The Indian food emulsifiers market is expected to reach US\$ 144.8 million by 2023 at a CAGR of 7.36% during 2018-2023. Changing lifestyle, shift towards convenient, processed, and packaged products, a growing affinity towards convenience products, and rising demand for healthier and better-for-you products are expected to stimulate the market growth. The major application areas for emulsifiers in India are Bread, Biscuits other Bakery & confectionery products and other Convenience foods. Growing awareness and demand for healthier and organic food products is expected to propel the usage of emulsifiers in the country further. Additionally, the demands for bakery products like biscuits, cakes & pastries, chocolates & dairy products have been increasing, making emulsifier an essential additive.



(Above data includes all emulsifiers including commodity emulsifiers like soya lecithin)



(Source: MarketsandMarkets)

Opportunities

- Changing lifestyle, shifting pattern and rising penetration of ready-to-eat convenience foods, processed and packaged food products among working class is projected to drive demand for food additives in India
- Surging demand for malt drinks will further drive the market for food emulsifiers
- The increasing demand for premium ice creams, frozen desserts and other dairy products in India will drive demand for emulsifier market
- Rise in health awareness and quality consciousness of consumers in developed nations demands for healthy packaged foods
- Further, rising disposable incomes and busy lifestyles are increasing demand for packaged, processed and ready-to-eat foods

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2. Plastics

Plastics possess multiple impressive properties and benefits, due to which, they have been the key material of choice in consumer as well as luxury goods and thus is reflected in remarkable volumes. Additives impart promising functionalities and offer value addition resulting in superior end-performance. Commonly used plastics additives include processing aids, antioxidants, fillers, UV stabilisers, plasticisers, catalysts, antiblocks, flame retardants, anti-fogs, green plasticisers, slip, antistats, lubricants, stabilisers and more. These additives cover a wide range of applications, for instance – packaging and functional films, automotive, consumer goods, wires and cables, pipes, medical, construction etc.

Global scenario

The global plastic additives market was valued at approx. US\$ 43.82 billion in 2018 and is expected to reach around US\$ 61.25 billion by 2025, at a CAGR of 4.9%. Based on type, the market for plastic additives is classified into antioxidants, antiblocks, UV stabilisers, fillers, catalysts, lubricants, processing aids, flow improvers, slip additives, antistatic additives, pigment wetting agents, filler dispersants, antifog additives, plasticisers, stabilisers, flame retardants, impact modifiers and others. Increasing use of plastic additives in end use industries, growing plastic consumption coupled with replacement of conventional materials by plastics in several applications and shifting customer preferences to plastic products owing to their low price and increased durability are key driving forces of market growth.

(Source: [https://www.globenewswire.com/news-release/2019/07/08/1879228/0/en/Global-Plastic-Additives-Market-Will-Reach-US\\$-61-25-Billion-By-2025-Zion-Market-Research.html](https://www.globenewswire.com/news-release/2019/07/08/1879228/0/en/Global-Plastic-Additives-Market-Will-Reach-US$-61-25-Billion-By-2025-Zion-Market-Research.html))

Indian scenario

Plant-sourced plastic additives market in India was expected at approx. 25,000 tonnes per annum in 2019 and is expected to reach around 30,000 tonnes per annum by 2023. Plastic additives are used in a wide range of applications ranging from flexible/rigid packaging specialty films, agricultural, moulded articles, construction, packaging of

electronic equipments, machine parts made from engineering plastics and automotive components. Increasing plastic consumption in the construction, automotive and electrical & electronics industries is projected to drive the market for plastic additives. The increasing use of plastic additives, especially in packaging solutions for household and industrial reasons, is anticipated to majorly fuel the demand for plastic additives.

(Source: - Internal working)

Opportunities

- The growing e-commerce is propelling packaging industry coupled with the increased demand from the retail industry, this will drive the market of plastic additives promisingly
- Replacement of conventional products widely used in construction, infrastructure and automobile industry with plastic products will increase the demand for plastic additives
- Shifting customer preferences to plastic products owing to their low price, better functionality and increased durability will propel the plastic additives market
- Stringent regulations regarding depletion and recyclability of conventional materials such as metal and wood are anticipated to drive the demand for plastic from construction industries in insulation, pipes, cables, floorings, windows and storage tanks
- Shift in consumer preference toward eco-friendly plastic products and increasing use in food packaging & compostable bags applications in emerging markets such as APAC and Rest of the World

3. Cosmetics and Pharmaceuticals

Global scenario

The global cosmetics market was valued at US\$ 507.8 billion in 2018 and is expected to reach US\$ 758.4 billion by 2025. Rising disposable income, growing population, and increasing awareness of beauty products is driving the growth for cosmetics. The global cosmetic industry is increasingly manifesting higher preference for specialised ingredients such as organic, herbal and ayurvedic

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products as part of cosmetic products. Thus, the shift toward natural and organic cosmetics is expected to uplift the market in future. Also eco-friendly features of products can reinforce the quality and availability of raw materials; thus, ensuring positive positioning of the brand. Hence manufacturers are also encouraging the use of natural ingredients or products based on natural raw materials for manufacturing the end products.

(Source: <https://www.statista.com/statistics/585522/global-value-cosmetics-market/>)

Indian scenario

The Indian cosmetic market, which was valued at nearly US\$ 11.16 billion in 2017, is anticipated to grow at a CAGR of 5.91% by 2025. The cosmetics and personal care industry are amongst the fastest growing consumer product sectors in India. The personal care and cosmetics sector in India has continuously shown strong growth, with increasing shelf space in retail stores and boutiques in India, stocking cosmetics from around the world.

(Source: <https://www.goldsteinresearch.com/report/india-cosmetics-market-report-industry-analysis>)

Opportunities

- Products containing multiple benefits in a single product such as those with anti-ageing properties, moisturising care and sunscreen protection are gaining popularity in the skin care cosmetics industry
- The Indian consumers are becoming more aware about their physical appearance and ready to invest in grooming process. This has created a demand for more herbal, organic and natural cosmetic products
- The cosmetic category is also gaining popularity from millennials due to adoption of western culture and lifestyle and increasing number of beauty salons
- With growing affluence, Indians are able to spend more on hygiene and personal care products. Increasing demand for wide range of cosmetic and health care products and as well as hygiene is expected to grow this segment

- Factors like use of novel technology and ingredients, increased life expectancy and a growing number of working women will create a new avenue for product development in the coming years

4. Rubber

Indian scenario

India is the third largest producer and fourth largest consumer of natural rubber in the world. It is also the fifth largest consumer of natural rubber and synthetic rubber put together. With rubber possessing several properties like abrasion and heat resistance, the rubber market is set to gain traction from its ever-increasing usage in a wide range of end-user industries. It is majorly utilised in the production of gaskets, hoses, adhesives, tyres, conveyors belts, tubes, and medical gloves, among others. The growth of rubber additives is attributed to increased usage of rubber in auto industry, steady improvement in industrial and infrastructure activity.

Opportunities

- The growing use of rubber across automotive, chemical, medical and other industries
- The growing population with the increasing purchasing power of the consumers will boost demand for automobiles, this, in turn, will increase the rubber demand
- Increasing demand for rubber additives in non-tyre applications is one of the primary growth drivers. Non-tyre applications include adhesives, asphalt, foam and carpet backing, damping components, conveyor belt, footwear and ball bladders, seals, O-rings, gasket, gum, hoses, and medical and pharmaceutical devices

5. Coating Additives

Indian scenario

India is among the fast growing printing ink markets globally spurred by the rapid expansion of the domestic print markets. Backed by a strong demand from key end user segments such as package printing, newsprint, publishing and other commercial printing, the printing ink market in India has registered strong growth in the recent years. Printing ink sector in India is estimated at

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3,60,000 tonnes for 2019-20, valued at around ₹ 55 billion; the market witnessed a growth of around 7.5% per annum during the last 10 years. Printed packaging accounts for around 27% of the demand for printing inks in India followed by newspapers at 20%. The printing ink industry is fragmented with over 550 manufacturers and a large number of players in the un-organized sector.

Opportunities

- The growing e-commerce business, increasing applications, technological advancements pose as future growth drivers for the industry
- Increasing demand for plastics across industries like packaging, automobiles, durables etc will demand for inks and coatings additives in India
- Packaging sales are expected to show growth as both increased consumption and demand for consumer goods drives the need for more sophisticated packaging with the growing disposable income

(Source : http://www.phdmsme.in/uploaded_files/project_report/1536151366_923.pdf)

Challenges/Threats

- **Slowdown in user industry growth:** Oleochemical derivatives' demand depends upon the various sectors and end-user industry. Any slowdown in growth of user industry such as Paints & Coatings, Specialty Polymers and Construction chemicals among others could impact the overall growth for the sector.
- **Vegetable oil prices:** The price of vegetable oils depends upon the global as well as domestic demand-supply output & climatic/crop conditions. The changes in the duties made by the Indian Government and exporting countries may result in price fluctuation as well as volatility in demand
- **Increasing regulations & reforms:** Any change in regulations can cause a rippling effect across an industry. Regulations can increase costs of operations, introduce legal and administrative hurdles and sometimes even restrict a Company from doing business. An increasingly stringent regulatory environment with regard to foods, cosmetic ingredients and other specialty additives could result in stricter standards being applied to

products, which could cause to incur substantial costs and may therefore have an adverse effect on our business and results of operations

- **Long product approval:** End-user Customer typically takes three to five years to approve additives before the additives manufacturer is approved as a supplier which involves significant amount of costs
- **Strict customer specification:** Oleochemical based additives are subject to strict customer specification requirements in terms of manufacturing processes and products and any failure by the manufacturer or suppliers to comply with the applicable customer specifications may lead to cancellation of existing and future orders, recalls or warranty claims or civil claims. If products fail to meet customers' quality standards, it could result in removal from end-user customers' 'approved supplier' lists, which would have a material adverse effect on our business, financial condition and results of operations

Covid-19 Impact on our Business & Outlook

The pandemic of Coronavirus (COVID-19) has affected every aspect of life globally. This has brought along several changes in market conditions. The oleochemicals based specialty additives industry touches nearly every product we all use on a daily basis. Due to the outbreak of COVID-19 pandemic globally, due to lockdown announced in Maharashtra and whole of India, the operations/productions in the manufacturing sites of the Company were temporarily suspended with effect from March 23, 2020. Further, the business operations in the various international markets where the Company operates have been impacted to varying extent based on the spread of the COVID-19 and the restrictions on business activities placed by the respective Government authorities in these countries.

Given the essential nature our products, manufacturing operations resumed shortly after the initial lockdown with effect from March 31, 2020 with limited workforce after taking necessary approvals from local authorities however the sales volume of the Company, export as well as domestic, have been relatively slow and is picking up as the restrictions imposed by lockdown are being relaxed. The supply chain has been slightly disrupted initially in view of lockdown and is gradually returning to normalcy based on country/ state wise relaxation in restrictions. The Company has a diverse portfolio of products which

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are used in foods, plastics, cosmetics, rubbers, coatings and other specialty applications etc. Due to COVID-19, sales volumes of all categories of products have been impacted.

Outlook: -

A crisis is often a catalyst for innovation, establishing new industry structures and cost levels. For the oleochemicals based specialty additives industry, this is a unique opportunity to get closer to end-users and accelerate innovative digital enabled business models that address customer needs.

We believe that the inherent strength of Oleochemicals sector such as low operating overheads, better manufacturing and compliance standards, stringent environment policy, stringent product quality standard, availability of feedstock and skilled manpower are good drivers to our Company as a viable sourcing alternative for global players. However, the economic fallout of and the subsequent recovery from COVID-19 will depend on multiple factors, such as recovery driven by containment efforts, supply chain disruptions, impact of lockdowns etc. The continued spread of COVID-19 could adversely affect workforces, suppliers, customers, economies and financial markets globally, potentially leading to further economic downturn. The potential impact to our results going forward will depend to a large extent on future developments regarding COVID-19 that cannot be accurately measured at this time, including the duration and severity of the pandemic, the extent and effectiveness of containment actions and the impact of these and other factors on our stakeholders.

BUSINESS OVERVIEW

Fine Organics, since its inception in the year 1970, has successfully established itself as a key player in oleochemicals-based additives not only domestically but also globally. The Company has developed 400+ range of specialty additives which finds its application in foods, plastics, cosmetics, coatings, rubbers and other specialty applications in various industries.

The state-of-art-manufacturing facilities of the Company is located at Ambernath, Badlapur and Dombivali. The Company has the dedicated lab with 18 scientists and technicians which equips them to develop new innovative solutions for the customers. The Company has its own in-house manufacturing facilities and

technologies which is effectively supported by strong research and development team. The in-house designing and engineering capabilities of the Company enables them to develop best-in-class products for its customers.

Food Additives

The Company caters food industry with its additives such as Emulsifiers, antifungal additives, preservatives and other additive blends. These additives help in maintaining the quality of food, keeping food fresh, imparting better product structure integrity and increasing the shelf life of the food products such as breads, cakes and bakery products and keeps it safer from spoiling or from becoming toxic due to unwanted growth of bacteria, yeast and moulds.

Plastic Additives

The Company develops wide range of additives such as dispersing agents, processing aids, anti-stats, flow improvers, lubricants, antifogging additive for polymers, polymer compounds and masterbatches, foamed products, PVC products and engineering plastics. These additives impart various functionalities such as slip additives help in reducing friction between plastic film surfaces and film surface with metal surfaces, antistats aid to dissipate the static charges to make plastic safer for handling, antifogs improve the visibility through plastic films.

FINANCIAL HIGHLIGHTS(STANDALONE)

The Company posted net revenue from operation ₹ 1,02,622.30 lakhs in 2019-20 as against ₹ 1,04,397.20 lakhs in 2018-19 representing decrease of 1.7% over the previous year. EBIDTA of the Company recorded an increase of 6.22% from ₹ 22,225.17 lakhs in 2018-19 to ₹ 23,608.03 lakhs in 2019-20. The EBIDTA margins improved from 21.29% in 2018-19 to 23% in 2019-20. PAT of the Company recorded an increase of 29.06% from ₹ 12,901.37 lakhs in 2018-19 to ₹ 16,650.17 lakhs in 2019-20. The PAT margins improved from 12.36% in 2018-19 to 16.22% in 2019-20.

	2018-19	2019-20
Inventory Turnover	12.86X	10.34X

(Net Sales / Average Inventories)

	2018-19	2019-20
Interest Coverage Ratio	114.38X	42.13X

(Earnings Before Interest and Taxes / Finance costs)

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	2018-19	2019-20
Current Ratio	4.14X	3.92X
(Current Assets / Current Liabilities)		
	2018-19	2019-20
Debt Equity Ratio	0.05X	*(0.13X)
(Net Debt / Net Worth)		
*net cash position		
	2018-19	2019-20
Debtors Turnover	6.36X	6.58X
(Net sales/Average Accounts Receivables)		
	2018-19	2019-20
Operating Profit Margin(%)	19.6%	19.6%
(Profit before interest and taxes/Net Sales)		
	2018-19	2019-20
Net Profit Margin(%)	12.36%	16.22%
(Net profit after tax /Net Sales)		
	2018-19	2019-20
Return on net worth(%)	25.37%	26.40%
(Net profit after tax / Net Worth)		

RISK MANAGEMENT

Slowdown in economy: Any slowdown in Indian economy as well as global can disrupt the entire supply chain which will indirectly affect the Company's profitability. The Company invests in understanding the needs of its customers and it carefully studies the requirements posed by different markets on products in order to ensure that the products comply with the specific requirements of each region and are competitive.

Unavailability of raw material: The crop of oil seeds may get destroyed due to climatic changes/natural calamities like drought, floods etc which can affect availability of vegetable oils. Since the Company manufactures products for various specialty applications. They intend to procure raw material from different vendors due to their large volume. Therefore, any disruption in supply chain and unavailability of raw materials can impact the Company's profitability. As, the Company have long standing relationships with its suppliers, the Company is able to get the raw material at competitive prices.

Competitive activity: Competition in the additives market is intense and competitive activity is likely to remain high. Increasing competition may result in pricing pressures and decreasing profit margins. To mitigate this risk, the Company continuously tries to add new products to its basket.

Quality: As Company manufactures additives that are used in food industry, they are subjected to many checks that meet the specific quality and regulatory standards. Any failure in quality of the product may lead to loss of reputation and goodwill of our Company, cancellation of the order and even lead to loss of customers. The Company has continued its attention on strengthening quality standards through its in-house process development and management which helps them in maintaining the highest level of quality consistency.

Regulatory: Like all chemical companies, Fine Organics is also subjected to central, state, local and foreign laws and regulations relating to pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. Moreover, changes in environmental regulations could also inhibit or interrupt the Company's operations. For this, The Company ensures to abide by all the necessary requirements of the regulatory bodies and ensures environmental-friendly manufacturing processes.

Human Resource Risk: - Risk of key management personnel leaving exists. Failure to attract and retain the right set of talent may affect the growth of the organisation. To guard against the same your Company has a competitive remuneration policy combined with appropriate rewards and recognition plan. The Company regularly invests in training of its employees to upgrade their skillsets.

HUMAN RESOURCE

Our employees are our biggest assets. Sustainable growth can only be achieved in an organisation which focuses on a performance culture and where employees are engaged and empowered to be the best they can be. The Company continuously motivates its people to collaborate with experts to enhance their skills. The Company to enhance the skills of its employees, conducts various programs in the organisation. The Company's continuous thrust is on delivering corporate values, leadership, integrity, flexibility, efficiency and establishing a corporate culture based on trust, respect for diversity and equality of opportunity.

The Company's mission is to protect and enhance the well-being of the employees and provide them with safe working

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environment, flexible work times and fair treatment at work. The Company also organises various programmes to enhance the skills of their employees such as team building, communication skills, presentation skills, 5S, QMS (Quality Management System). As at March 31, 2020, Company's employee strength stands at 701.

INTERNAL CONTROL SYSTEM

The Company has a sound and adequate internal control system commensurate with its size and nature of business. The Company constantly upgrades its internal control system from time to time. The Company's internal audit system has been continuously monitored and updated to ensure that assets are safeguarded, established regulations are complied with and pending issues are addressed promptly. The Audit Committee reviews reports presented by the internal auditors on periodic basis. The committee makes note of the audit observations and takes corrective actions,

if necessary. It maintains constant dialogue with statutory and internal auditors to ensure efficiency and effectiveness of internal control systems.

CAUTIONARY STATEMENT

The Management Discussion and Analysis report containing your Company's objectives, projections, estimates and expectation may constitute certain statements, which are forward-looking within the meaning of applicable laws and regulations. The statements in this Management Discussion and Analysis report could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in the governmental regulations, tax regimes, forex markets, economic developments within India and the countries with which the Company conducts business and other incidental factors.