

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. INDUSTRY SCENARIO

1.1 Global Scenario

The slowdown observed in the global Naval shipbuilding market during the past few years due to the cutback on military spending by major western countries continues to prevail. Further, the outbreak of COVID-19 pandemic has adversely impacted the global economy, which in turn affected the global shipbuilding market. However, a turn around as expected, given the need to replace older vessels in the naval fleet of major economies and the increase in the level of sophistication in combat technology. The global naval shipbuilding market would peak during the first half of this decade, driven by demand for both surface combatants and submarines. Globally, the average age of warships is as high as twenty-five (25) years and around 180 procurement programs are under execution in various countries.

1.2 The Indian Scenario

Defence shipbuilding in India is emerging as an area of focus of both the public and private sector shipyards. While the five public sector shipyards including your Company are the frontrunners in the defence shipbuilding space, private shipyards are also undertaking specific measures to enhance competence and modify their existing shipbuilding infrastructure to suit the needs of the Indian Navy and the Indian Coast Guard. Among the private shipyards, L&T Shipbuilding and Shoft Shipyard, which entered the shipbuilding market as commercial shipbuilders, have been repositioning themselves as capable warship builders.

According to industry sources, the defence shipbuilding order book is expected to grow 8-10% CAGR over the next five years. Further, the Indian shipbuilding industry's order book is expected to receive a boost on account of Indian Navy and Coast Guard's ambitious ship acquisition plans as these forces plan to have a fleet of 200 ships each. Their combined shipbuilding programme spanning over fifteen (15) years, indicated that they would place orders for about 165 warships in the coming years.

As obtained from open sources, the Indian Navy's estimated capital budget for up to 2027 amounts to ₹ 4,50,000 crore approx. The planned expenditure includes a separate estimate

for various vessel categories including submarines (₹ 2,20,000 crore approx.), destroyers / frigates (₹ 90,000 crore approx), aircraft carriers (₹ 45,000 crore approx.), Corvettes, landing platform etc. For the ICG, the Government has approved a ₹ 32,000 crore action plan.

Substantial market opportunities are also anticipated in the coming decade and beyond in the area of maintenance, repairs, refits and upgrades of Indian Navy and Indian Coast Guard warships. To capitalize on the same, GRSE intends to ramp up its focus on repair and refitting of Indian Navy and Indian Coast Guard vessels.

The new shipbuilding policy announced by the Government of India granting financial assistance to the shipbuilding industry helps Indian Shipbuilders to be more cost competitive at a global level. The infrastructure status to the shipbuilding industry also facilitates various Government incentives and tax benefits.

2. ORGANISATION STRUCTURE

Presently, GRSE has three (3) separate facilities for shipbuilding, all of which are located in close vicinity of each other in Kolkata, India and also connected by river. We construct our ships at the Main Works Unit and the Rajabagan Dockyard (a facility mainly dedicated for construction of small vessels). Our third facility, the FOJ unit is primarily used for fitting out and repair of ships. Our Diesel Engine Plant (DEP), Ranchi Unit is engaged in assembly of semi-knocked down units of diesel engines and the testing and overhauling of marine propulsion engines, and our engineering segment is engaged in the manufacturing and fabrication of portable steel bridges, deck machinery items of ships and marine pumps.

3. PRODUCTS AND SERVICES

Being a Defence PSU, GRSE primarily caters for the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. In addition to our warship building capabilities, we are engaged in construction of commercial vessels and engineering & engine production activities. As a part of our engineering division, we manufacture deck-machinery items, pre-fabricated portable steel bridges and marine pumps.

4. SWOT ANALYSIS

Considering the dynamic nature of the environment, a SWOT Analysis of GRSE was carried out and the following are identified:

<p>Strengths:</p> <ul style="list-style-type: none"> (a) World class infrastructure for shipbuilding enabling simultaneous construction and fitting out of 20 small, medium and large ships. (b) Proven capability to produce wide spectrum of ships ranging from 5 Ton Boats to 24,600 Ton fleet tanker. (c) Dedicated stand-alone facility (Raja Bagan Dockyard) with an area of 33 Acres and 550 M water front for concurrent construction/ fitting out of five small ships. (d) Dedicated Fitting out Jetty Unit to concurrently undertake post-launch outfitting of four large ships. (e) Proven in-house capability for ship design in terms of good infrastructure with seamless IT Network including Design Software and a team of 100 T Design Engineers. (f) Dedicated Virtual Reality (VR) Lab for detailed design and evaluation. (g) Well established Project Management System with latest Project Management software. (h) ISO 9001:2015, ISO 45001:2018, ISO 14001:2015 & ISO 50001:2018 certification. (i) A robust ERP system encompassing all areas of business operations. (j) In-house skill development Centre at TTC, Baranagar. (k) Competent and highly skilled human resource at all levels. (l) Efficient Supply Chain Management system. (m) Financially strong Company with a good order book visibility. (n) A Profit making, Dividend paying and Zero Debt Company. (o) Long standing relationships with main customers like Indian Navy and Indian Coast Guard. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> (a) Constraints of a riverine shipyard due to limitations in the depth and width of navigable channel with effects of silting in river. (b) Location of the Company in thickly populated residential areas having narrow roads. (c) Weak shipbuilding eco-system in eastern part of India.
<p>Opportunities</p> <ul style="list-style-type: none"> (a) Acquisition plan of Indian Navy and Indian Coast Guard aimed at significant Expansion of fleet size. (b) Acquisition plan of MHA & IWAI. (c) Export potential especially for small and medium size warships and patrol vessels to South East Asia, West Asia, African countries and Latin America. (d) Government policy on thrust for exports including extension of Line of Credit (LoC). (e) Repair and Refit of Ships for Indian Navy and Indian Coast Guard has got significant business potential. (f) Capacity and Capability enhancement through collaboration with private shipyards (g) Acquisition of suitable shipbuilding or repair yards in India and abroad. (h) Scope for increasing business volumes in Bridges, Engineering Products and Engines through aggressive marketing, capacity augmentation and product diversification. (i) Capability of developing basic design of varied range of vessels which can be utilized in rendering design and associated services to other Shipyards enabling the Design Office to become a separate cost center. 	<p>Threats</p> <ul style="list-style-type: none"> (a) Competition from Private and Public Shipyards. (b) Geographical location and environment. (c) Competition for Engineering Products from small players. (d) Inadequate local Vendors for major shipbuilding activities. (e) Inordinate delay in supply of certain critical equipment by customer nominated firms leading to time overrun of projects.

From the above SWOT analysis, it emerges that Company needs to leverage its strengths to create a competitive advantage for maximizing available opportunities, while continuously improving internal efficiencies by leveraged technology. There are good opportunities available to the Company to build Defence, Coastal Security and inland Water Vessels and also in the field of ship repairs. Accordingly, the Company's efforts are being focused in exploiting such opportunities based on the Company's strength and on minimizing the adverse effect of its weaknesses. The strengths of infrastructure and production facilities are channelized to develop reliable vendors who can support shipbuilding in order to address the emerging opportunities and reducing the impact of prevailing threats.

5. OUR STRATEGIES

We intend to pursue the following principle strategies to exploit our competitive strengths and grow our business:

- (a) Thrust towards cost reduction and improvement of productivity and internal efficiency.
- (b) Focus on enhancement of Customer satisfaction.
- (c) Leverage Information & Communication Technology (ICT).
- (d) Maximise indigenous content in warship construction.
- (e) Optimum utilization of space and integrated construction facility to bring down Build Period.
- (f) Business Development through concerted marketing effort.
- (g) Focus on Sustainable Development.
- (h) Developing Businesses other than shipbuilding separately.
- (i) Enhance Human Resource Development through identification of competency gaps and imparting suitable training to employees keeping overall business strategy on a focal point.
- (j) Adopt Industry 4.0 suitably in business operations of the Shipyard.
- (k) Facilitate development of vibrant echo system for Shipbuilding activities in Eastern region.

6. SEGMENT-WISE / PRODUCT-WISE PERFORMANCE

The Ministry of Corporate Affairs vide Notification dated 23 Feb 2018 granted exemption to the companies engaged in defence production to the extent of application of relevant Accounting Standard on segment reporting. Hence, the segment-wise / product-wise performance is not appended to this Report.

7. OUTLOOK

While the overall Indian Shipbuilding industry has witnessed healthy growth in the recent past. Defence Shipbuilding segment looks promising on account of the ship acquisition plans of the Indian Navy and the Coast Guard.

Your Company is predominantly in the defence shipbuilding segment and has gained sufficient expertise in large, medium and small size ships required by Indian Navy and Indian Coast Guard, in particular, and generally enjoys excellent reputation for ships that it has built. Your Company has delivered its 107th warship (exporting a Fast patrol Vessel to Govt. of Seychelles) on 15 Feb 2021 and the only Shipyard in the country who has achieved such a feat of crossing the coveted 100 mark.

GRSE is operating in a highly competitive environment across all its product segments. The private shipbuilding players are competitors for orders from Defence sectors where the Company has predominant business. Despite competition from International and Indian Shipyard in Public and Private sector, your Company continues to make efforts to secure shipbuilding orders at domestic and international level and is maintaining the growth momentum. During the financial year 2020-21, your Company has bagged two export contracts as follows:

- a) Export order of 12.73 Million USD for supply of 01 No. Ocean Going Passenger & Cargo Ferry Vessel to Republic of Guyana was awarded to GRSE. The contract was signed on 13 Jan 2021.
- b) Export Order of ₹ 100 crore approx. for supply of one Fast Patrol Vessel to Govt. of Seychelles was awarded to GRSE. The contract was signed on 03 Feb 2021 and the ship was delivered on 15 Feb 2021.

The Company is also giving thrust to its ship repair activities. In order to move forward the ship repair activity, a Memorandum of Understanding (MoU) has been signed between GRSE & SMP (KoPT) to develop and utilize 03 existing dry docks of SMP which are strategically located. The close proximity of this facility would provide a boost to the Ship repair efforts of GRSE, during the year. Another credible achievement is that the Company has received a repair and refit order from Govt. of Mauritius for an Offshore Patrol Vessel.

8. MEASURES TO TACKLE CHALLENGES

The following are the major initiatives taken to ensure sustained performance and growth:

- a) Develop Design Department into a Centre of Excellence
- b) Upgrade shipbuilding technology / processes
- c) Revamping of Material Management / Supply Chain Management
- d) Vendor development & building long term Partnerships
- e) Improve Project Management System for shipbuilding projects
- f) Upgrade products of Bridges Unit, Deck Machinery Unit and Diesel Engine Plant
- g) Business Development through concerted marketing effort with focus on Exports.
- h) Developing Businesses other than shipbuilding, as separate profit centres
- i) Strategic Partnership for Export / Special Projects
- j) Measures for increasing VoP from Ship Repair (SR) Business
- k) Measures for increasing VoP of Portable Bridges, Deck Machinery, marine pump and Diesel Engine Businesses
- l) Measures to Improve Productivity line at GRSE
- m) Implementation of Project Life Cycle Management (PLM) software migrating to achieve 100% compliance for working on PLM
- n) Reduction in Revenue Expenditures

- o) Improvement of Ease of Doing Business (EoDB)
- p) Efficient Risk Analysis and Mitigation Plans
- q) Leverage Information & Communication Technology (ICT) for better management
- r) Shipyard Capacity Enhancement from 20 to 24 ships concurrent construction.

9. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

Your Company has an Internal Control framework, commensurate with the size, scale, and complexity of the Company’s operations. The framework has been designed to provide reasonable assurance with respect to recording and providing reliable financial and operational information, complying with applicable laws, safeguarding assets from loss, misuse and physical impairment, executing transactions with proper authorisation, and ensuring compliance with corporate policies. The Company has laid down Standard Operating Procedures and policies to guide the operations of the business along with a comprehensive delegation of power for the smooth functioning and decision making. Business heads/ Unit Heads are responsible to ensure compliance with the policies and procedures laid down by the Management.

Your Company has implemented ERP (SAP) and controls have been documented and embedded in the business processes. The Internal Auditors monitor and evaluate the efficacy and adequacy of internal control systems, its compliance with operating systems, accounting procedures, and policies. Based on the report of the Internal Auditors, process owners undertake corrective action(s) in their respective area(s). Significant audit observations and corrective action(s) thereon are presented to the Audit Committee. The Audit Committee at its meetings reviews the reports submitted by the Internal Auditor. Also, the Audit Committee at frequent intervals has sessions with the statutory auditor and the Management to discuss the adequacy and effectiveness of internal financial controls.

10. RISK MANAGEMENT

Your Company has in place a Board approved Risk Management Policy and Charter and implemented a structured risk management system. This charter is intended to establish a common understanding, language and methodology for identifying, assessing, responding, monitoring and reporting risks and to provide assurance to the management that key risks are being properly identified and effectively managed in the company. GRSE has constituted a Board level ‘Risk Management Committee’ (BLRMC). The key risks faced by the company are analysed by the Risk Management Steering Committee (RMSC), which is responsible for adopting & implementing the risk management framework and leading the risk management initiative across the company. The Chief Risk Officer (CRO) is the convener of BLRMC & RMSC. Risk management committees at unit level analyse risks associated with their respective areas, prepare mitigation plans, ensure implementation and also inform the top management. The Company has in place a mechanism to inform the Board Members about Risk Assessment and minimization procedures and periodical review to ensure that executive management controls risk by means of a properly designed framework.

11. DISCUSSION AND ANALYSIS ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The Performance Highlights of the Company during the year ended 31 Mar 2021 are as follows:

(₹ in crore)

Particulars	As on 31 Mar 2021	As on 31 Mar 2020
Gross Income	1,328.43	1,658.79
Revenue from Operations	1,140.84	1,433.30
Value of Production	1,132.76	1,424.70
Gross Margin	238.91	255.29
Profit Before Exceptional Items & Tax	227.87	234.48
Exceptional Item	(20.75)	(10.61)
Profit Before Tax	207.12	223.87
Tax Expense	53.65	60.39
Profit After Tax	153.47	163.48
Net Worth	1,137.12	1,040.23
Book Value per Share (in ₹)	99.27	90.81
Earnings Per Share (in ₹)	13.40	14.27
Dividend Per Share (in ₹)	5.00	7.14

Efficiency Ratios (%)	FY 2021	FY 2020
PBT Margin	18.16	15.62
PAT Margin	13.45	11.41
Debtors Turnover	15.61	37.35
Basic EPS	13.40	14.27

(₹ in crore)

Import and Export	As on 31 Mar 21	As on 31 Mar 20
Imports made during the year	78.89	102.79
Exports made during the year	87.49	1.01

- **Gross Revenue** registered a fall of 19.92 % from ₹ 1,65,879.47 lakh in 2019-20 to ₹ 1,32,843.09 lakh in 2020-21.
- **Value of Production** has decreased from ₹ 1,42,470.32 lakh in 2019-20 to ₹ 1,13,276.40 lakh in 2020-21.
- **Net Profit (PBT)** has decreased from ₹ 22,387.10 lakh in 2019-20 to ₹ 20,711.74 lakh in 2020-21.
- **Value Addition per Employee** has increased from ₹ 23.07 lakh in 2019-20 to ₹ 25.00 lakh in 2020-21.
- **Book Value per share** has increased from ₹ 90.81 in 2019-20 to ₹ 99.30 in 2020-21.
- **Net Worth** has increased from ₹ 1,04,023.10 lakh in 2019-20 to ₹ 1,13,711.76 lakh in 2020-21, an increase of 9.31%.

12. HUMAN RESOURCE DEVELOPMENT

The Company has been focussing on sustained development of its employees, both at the individual and at the team level through various human resources development initiatives. Some of the initiatives rolled out during the year are enumerated below: -

- (a) **Capability Building Initiatives:** The Company has been undertaking various initiatives in updating the competencies of its human resources through exposure to various learning & development organised by premier institutes in India and abroad. The major capacity building initiatives in FY 2020-21 are given below:
 - (i) Leadership Development Programmes;
 - (ii) Advanced Technical Training Programmes;
 - (iii) Managerial & Behavioural Competencies Development Programmes;
 - (iv) Functional Development Programme;
 - (v) Training Program on Emerging Topics;
 - (vi) E-learning courses;
 - (vii) Awareness programmes on IPR and Preventive Vigilance
- (b) **New HR Initiatives:** As a part of HR capability building framework and with a view to improve the existing HR processes, the People Capability Maturity Model (PCMM) has been adopted in GRSE. Apart from PCMM, the Company has introduced a revised Performance Management System (PMS), 'Competency Framework and Talent Spotting and Development Scheme'.

13. MANPOWER

The employee strength of your Company was 1900 persons as on 31 Mar 2021.

Total Employees as on 31 Mar 2021	Officers	Supervisors	Office Assistants	Workmen		
				Direct	Indirect	Total
1900	490	161	57	987	299	1192

14. ENVIRONMENT PROTECTION

Your Company contributes in all aspects for clean and green environment by systematically integrating best practices to bring in cleaner technologies and greening the environment through recycle, reuse and reduce approach. Effluent and Sewage Treatment Plant are being operated. Various environmental protection activities such as water conservation, tree plantation, disposal of hazardous waste and metal scrap, e-waste management and use of solar energy have been carried out.

15. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Relevant information in this regard is disclosed in the 'Directors' Report'.

16. CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY (CSR)

Relevant information in this regard is disclosed in the section 'Annual Report on CSR Activities' provided at **Appendix – "E"** of the Directors' Report.

Cautionary Statement- Certain statements made in the Management Discussion and Analysis Report related to the Company's objectives, projections, outlook, expectations, estimates and other may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ from such expectations, projections and so on whether expressed or implied. Several factors could make significant difference to the Company's operations. These include climatic conditions and economic conditions affecting demand and supply, government regulations and taxation, natural calamities and so on over which the Company does not have any direct/indirect control.