

# Management Discussion and Analysis

## ECONOMIC OVERVIEW

### Global Economy

The broad-based cyclical growth witnessed in the preceding two years lost momentum in 2018. Deceleration is mainly attributable to heightened trade tensions and tariff hikes between the United States (US) and China, poor business confidence, tightened financial conditions and greater policy uncertainty across economies. World economic growth came in at 3.6% in 2018, down from 3.8% in 2017. Growth in advanced economies was at 2.2% in 2018, slightly lower than the 2.4% in 2017. Growth in emerging markets and developing economies was 4.5% in 2018, as compared to 4.8% in 2017. China's growth was negatively impacted led by needed regulatory tightening to restraint shadow banking and heightened trade tensions with the US.

In 2019, world economic growth is likely to dip to 3.2% with early signs of pick-up in the second half. Positive stance rides on an accommodative policy outlook in advanced economies, likely easing of trade tensions between the US and China post the G20 summit and ramped up fiscal and monetary stimulus in China. Global growth is expected to scale up to 3.5% in 2020.

*(Source: IMF World Economic Outlook, July 2019)*

### Indian Economy

The Indian economy continued on its robust growth trajectory emerging as the fastest growing major economy in the world, despite the global economy battling headwinds. As per the Central Statistics Office's (CSO) provisional estimates, India's Gross Domestic Product (GDP) is expected to have grown at 6.8% in FY 2018-19, versus 7.2% in FY 2017-18. Pressure on growth was seen mainly in the second half attributable to weak agricultural output, poor consumer spending impacted by stress in non-banking finance segment, low investments, and manufacturing sector weakness. Growth is expected to accelerate led by support from prudent macroeconomic policies on both fiscal and monetary fronts. India's ranking on the World Bank's 'Ease of Doing Business' report improved for the second straight year, jumping 23 places to the 77<sup>th</sup> position led by structural reforms related to insolvency, taxation and other areas.

Focused on supporting the economy and driving consumption, the Government in its interim Union Budget 2019-20 stressed on supporting farmers, economically weak sections, workers in the unorganized sector and salaried employees. The Government also continued to push for better physical and social infrastructure by allocating ₹ 5.97 Lakh Cr to the segment with all-time high allocations to the rail and road sectors. The year witnessed

significant development in infrastructure segment. Under the Smart Cities Mission, projects worth ₹ 2,350 Cr have been completed and projects worth ₹ 20,852 Cr are under progress. Around 35,000 km of road construction has been approved under the Phase-1 of the Bharatmala Pariyojana at an estimated cost of ₹ 5.35 Lakh Cr. Numerous foreign companies are setting up their facilities in India on account of various Government initiatives like Make in India and Digital India. The Government in its Union Budget July 2019 have announced ₹ 100 Lakh Cr on infrastructure over the next five years and ₹ 50 Lakh Cr on Railways between FY 2018-30.

India's GDP is expected to reach US\$ 5 Trillion by FY 2024-25 and achieve upper-middle income status on the back of digitization, globalization, favorable demographics and other structural reforms. As per a Boston Consulting Group report, India is expected to be the third-largest consumer economy as its consumption is likely to triple to US\$ 4 Trillion by 2025, owing to shift in consumer behavior and expenditure pattern. IMF forecasts the India's GDP to grow at 7.3% in FY 2019-20 with industrial capacities running at above average utilization and expectations of revival in capital investments. Consumer demand is expected to remain at a heightened level with good support from industrial and services sectors in FY 2019-20.

*(Source: CSO, IMF World Economic Outlook, April 2019, IBEF)*

## INDUSTRY OVERVIEW

Steady and robust GDP growth portends well for all the industry sectors, including wires and cables. The Government's focus on Power for All, rural electrification, improving infrastructure, along with robust spurt in the number of electrified households, improved lifestyles and new opportunities are propelling the demand for cables and wires and electrical items. The Indian wire and cable industry having grown at around 14-15% CAGR in the last five years is expected to accelerate to 15-16% CAGR in the next five years, catapulting the market from ₹ 49,000 Cr to ₹ 100,000 Cr. (Source: Wires & Cable India)

### Opportunities

The wires and cables market in India comprises nearly 40% of the electrical industry and is growing strongly as a result of growth in the power and infrastructure sectors. These sectors have been witnessing robust growth owing to the boost provided by the recent policy and regulatory initiatives as well as ambitious Government schemes. The Government has announced an expenditure of ₹ 100 Lakh Cr over FY 2019-24 into infrastructure. The Government schemes include Ujjwal Discom Assurance

Yojana (UDAY), 'Deendayal Upadhyaya Gram Jyoti Yojana' (DDUGJY), the Integrated Power Development Scheme (IPDS) and the 'Pradhan Mantri Sahaj Bijli Har Ghar Yojana' (PMSBHGY). Under DDUGJY, the Government has achieved the electrification of almost all villages in the country.

The Transmission and Distribution (T&D) sector continues to remain in focus, especially with the outlay of ₹ 2.6 Lakh Cr announced by the Government for the five-year period ending FY 2022. The plan includes an estimate of ₹ 30,000 Cr to be invested in transmission systems below 220 KV, of which ₹ 1.6 Lakh Cr would be invested by the States and the remaining amount by Power Grid Corporation of India. The Government is planning to increase the size of projects and scope of work in transmission. Inter-state lines with capacity of around 56,000 MW are being planned by the end of the 13th plan. There is also a sharper focus on high voltage transmission lines along with the Government's aim to provide 24x7 power, which is opening up opportunities in the sector. Electricity distribution companies (DISCOMs) which have joined the UDAY scheme are expected to improve their T&D infrastructure through renewed investments. The Government's target of generating 100 GW of solar energy by 2022 and measures such as excise duty exemption for ferro-silicon magnesium used for manufacturing components for wind-operated electric power generators are augmenting the demand for electrical wires and cables.

(Source: [https://www.business-standard.com/article/economy-policy/power-transmission-investment-likely-to-be-rs-2-lakh-cr-in-next-plan-cea-117010201016\\_1.html](https://www.business-standard.com/article/economy-policy/power-transmission-investment-likely-to-be-rs-2-lakh-cr-in-next-plan-cea-117010201016_1.html); <http://www.wirecable.in/2017/01/power-transmission-sector-likely-to-get-about-rs-260000-cr-investment-till-2022/>)

Further, the Indian Railways' 'Mission 41K', aimed at saving ₹ 41,000 Cr energy consumption expenditure over 10 years, has generated significant potential for Indian wires and cables industry through electrification of 38,000 km route. The Government has estimated a spend of ₹ 50 Lakh Cr during FY 2018-30 on Railways infrastructure, which shall greatly enhance the demand for railway cables.

The Government's continued emphasis on Digital India and the Bharat Net project to connect each of the 2.5 Lakh villages in the country with optical fiber is providing a strong demand for optical fiber cables. Additionally, the Government's 'Smart City' project is expected to propel large-scale growth in infrastructure, telecom, power generation, T&D, engineering and automotive sectors.

### Outlook

Paramount's main focus areas for its product demand are power, railways and telecommunications sectors. The future prospects of the respective sectors are as follows:

### Power Sector

India has the fifth largest power generation capacity in the world. The country ranks third globally in terms of electricity production. India's rank jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of Doing Business – 'Getting Electricity' ranking. Renewable energy is fast emerging as a major source of power in India. India has successfully achieved 99.9% household electrification as on 31<sup>st</sup> March 2019, under the Saubhagya Scheme. The Government aims to achieve 175 GW capacity in renewable energy by 2022, which includes 100 GW of solar power and 60 GW of wind power. Coal-based power generation capacity, which currently stands at 190 GW is expected to reach 330-441 GW by 2040. All the states and union territories of India are onboard to fulfil the Government of India's vision of ensuring 24x7 affordable and quality power for all. India's power sector is forecasted to attract investments worth ₹ 9-9.5 Trillion between FY 2019-23. Total Foreign Direct Investments (FDIs) inflows in the power sector reached US\$ 14.22 Billion during April 2000 to December 2018, accounting for 3.48% of total FDI inflows in India. These initiatives will bolster the demand for power cables.

(Source: CRISIL, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=180728>, IBEF)

### Railways

The Indian Railways is among the world's third-largest rail network. The Indian Railways route length network is spread over 115,000 km, with 12,617 passenger trains and 7,421 freight trains running each day. The Government made the highest ever capital-expenditure allocation of ₹ 1.58 Lakh Cr for the railways in the interim budget. The capital support from the budget for the railways is proposed to be ₹ 64,587 Cr. The Government is also focused on investing on railway infrastructure by making investor-friendly policies like enabling FDI in railways to improve infrastructure for freight and high-speed trains. In the next four to five years, Indian Railways plans to undertake 22,825 km of new line and 12,215 km of line doubling, besides, electrifying 38,000 km of railway network. Also, 3,360 km of Dedicated Freight Corridor (DFC) is expected to be commissioned by 2020. The eight proposed high speed rail (HSR) projects will entail a total investment of at least ₹ 13 Trillion over the next 15-20 years. In addition, nine semi HSR projects are in the planning stage. All-inclusive, the railways sector in India is poised to become one of the major drivers for economic growth in the country. The network expansion and decongestion plans are expected to create huge opportunities for the cables and wires market.

(Source: IBEF, Budget speech 2019, <https://www.businesstoday.in/budget-2019/news/union-budget-2019-piyush-goyal-announces-rs-158-lakh-crore-for-railways/story/315937.html>)

### Telecommunications

India is the world's second-largest telecommunications market with a subscriber base of 1.20 Billion attracting huge investment

interest. With rapidly growing subscriber base, there have been a lot of investments and developments in the sector. The industry has attracted FDI worth US\$ 32.45 Billion during the period April 2000 to December 2018 as per Department of Industrial Policy and Promotion (DIPP). The country has witnessed six-fold increase in Government spending on telecommunications infrastructure and services in the country – from ₹ 9,900 Cr during FY 2009-14 to ₹ 60,000 Cr during FY 2014-19. Also, countrywide Optical Fiber Cable (OFC) coverage has doubled from 700,000 km to 1.4 Million km. The Government's 100 smart city project requires the Internet of Things (IoT) to play a vital role in development of those cities. The National Digital Communications Policy 2018 has envisaged attracting investments worth US\$ 100 Billion in the telecommunications sector by 2022. Bharat Net initiative, estimated to cost ₹ 45,000 Cr is planned to provide high-speed broadband connectivity to all the panchayats. These initiatives bode well for the cables and wires market.

(Source: DIPP, IBEF, <https://economictimes.indiatimes.com/industry/telecom/telecom-news/government-spend-on-telecom-infra-service-increase-six-fold-between-2014-19-to-rs-60000-crore/articleshow/67459501.cms?from=mdr>)

### Building, Construction and Real Estate

The year 2018 saw a fair revival in the residential market, led by new launches and sales in the affordable housing sector, which is projected to continue driving the market growth in 2019. The main focus was on ensuring affordable housing, balancing the impact of Goods and Services Tax (GST) and improving sales. However, the sector was impacted by the fallout of the liquidity crisis of Non-Banking Finance Companies (NBFCs). In addition to granting infrastructure status to the segment, a substantial GST rate cut was brought about to boost real estate segment. For under-construction flats that do not come under affordable housing segment, the GST has been reduced to 5% without input tax credit (ITC) compared to 12% with ITC earlier. For under-construction affordable homes, the rates have been reduced to 1% without ITC compared to 8% with ITC earlier. The Government also extended the benefit of Credit Link Subsidy Scheme (CLSS) on home loans for the middle income group under the Pradhan Mantri Awas Yojana (PMAY) Urban till the end of March 2020. These initiatives are expected to drive demand for house wires.

(Source: CBRE)

### COMPANY OVERVIEW

Paramount Communications Limited (the Company) was founded in 1955 as a small-scale cable manufacturing unit by Late Mr. Shyam Sunder Aggarwal. The 'Paramount' Brand was first established in 1955, which was reorganized as M/s. Paramount Cable Corporation in 1978, and later converted into a Public Limited Company in 1994. The Company is a part of the Paramount Cables Group and is well-known as one of India's leading wire and cable manufacturing companies.

With valuable experience of over half a century, the Group has built up a comprehensive portfolio spanning HV & LT Power Cables, Optical Fiber & other Telecom Cables, Railway Cables, Axle Counter Cables, Specialized Cables, Instrumentation & Data Cables, Fire Survival Cables, Fire Performance Cables, Aerial Bunch Cables (ABC), Control & Instrumentation Cables, House-wiring and Cables for Submersible Pumps, Thermocouple Extension & Compensating Cables, Jelly Filled Telephone Cables (JFTC) etc. The Company's products find application in power, railways, telecom & IT, petrochemicals, construction, defense and space research segments. The Company caters to all end user segments namely, government, institutional and major private sector organizations, both national and international.

Focused on manufacturing excellence, technological advancement and customer satisfaction, the Company strives to meet and exceed global quality benchmarks. Providing total cabling solutions to customers for all products, the Company has emerged as a 'One-Stop Provider' led by a strong and able management team. Its efficiency and robust work culture is reflected in the various recognitions the Company has been endowed upon by esteemed and marquee institutions.

### Product-Wise Business Analysis and Performance

#### Power Cables

The segment comprises various kinds of electric cables sold by the Company including LT/HT Power Cables, LT/HT Aerial Bunched Cables, Fire Survival Cables, Fire Performance Cables, Control Cables, Instrumentation Cables, Thermocouple Cables and other power cables. In FY 2018-19, the Company sold power cables worth ₹ 321.76 Cr as compared to ₹ 255.83 Cr in the previous year. Power Cables constitute approximately 52.93% of the Company's FY 2018-19 turnover.

#### Railway Cables

The segment comprises various kinds of electric cables including Railway Signalling Cables and Quad Cables, among others. In FY 2018-19, the Company sold railway cables worth ₹ 119.14 Cr as compared to ₹ 75.93 Cr in the previous year. Railway Cables constitute approximately 19.60% of the Company's FY 2018-19 turnover.

#### House Wiring Cables

The segment comprises various kinds of electric wiring cables such as Copper Flexible, Industrial Wires & House Wiring Cables. In FY 2018-19, the Company sold House Wiring Cables worth ₹ 31.22 Cr as compared to ₹ 29.98 Cr in the previous year. House Wiring Cables constitute approximately 5.14% of the Company's FY 2018-19 turnover.

#### Optical Fiber Cables

OFC finds application in telecommunications sector for transmitting telephone and cable television signals and internet

communication. With the demand for internet connectivity witnessing robust growth, the demand for OFC is expected to witness an exponential growth in the coming years, with early growth signs already visible. In FY 2018-19, the Company sold OFC worth ₹ 131.69 Cr as compared to ₹ 66.51 Cr in the previous year. OFC comprises 21.66% of the Company's FY 2018-19 turnover.

#### Jelly Filled Telephone Cables (JFTC)

The Company sold JFTCs worth ₹ 4.10 Cr in FY 2018-19 as compared to ₹ 2.88 Cr in the previous year. The JFTC segment comprises about 0.67% of the Company's FY 2018-19 turnover.

### COMPETITIVE BUSINESS STRATEGY AND OUTLOOK

High quality and innovative products define the Company's USP. Its expert research team aims to develop and maintain the superiority and innovativeness of the product portfolio to meet the needs of the customers. The Company's product competitiveness is complemented by its robust distribution network and relationships with institutional and Public Sector Undertakings (PSUs) enabling it to ensure sustainable business. The bright future of the Company stems from its:

- Widest spectrum of cables and wires catering to practically all the sectors of the economy including strong presence in three of the five core infrastructure sectors. Very few companies possess such robust product portfolio.
- Access to an array of sectors which creates a de-risked and diversified business model with little dependency on any one sector.
- Rejuvenated balance sheet position post corporate debt restructuring and Foreign Currency Convertible Bond (FCCB) conversion into equity. With this, the Company has become net worth positive, its debt is under control and average cost of debt has substantially reduced.
- Ability to cater to diverse end users across major infrastructure segments. The Company, besides catering to retail need, is an approved cable supplier to the Government, Public Sector Enterprises and almost all the major private players. As a result, a majority of its revenue comes from Government and institutional sales.
- Focus on providing tailor-made solutions with unique and superior quality, led by a passionate and expert research team, leading to high levels of client satisfaction.
- Accreditation with maximum certifications and prominent approvals from domestic and international clientele as products qualify the highest technological parameters and specifications.

### FINANCIAL PERFORMANCE

The Company's standalone Gross Turnover including other income stood at ₹ 617.77 Cr in FY 2018-19 versus ₹ 446.43 Cr in FY 2017-18. Net Profit including other comprehensive income for FY 2018-19 came in at ₹ 29.16 Cr versus ₹ 14.69 Cr in FY 2017-18.

Finance costs for FY 2018-19 stood at ₹ 7.98 Cr, as against ₹ 4.48 Cr in FY 2017-18.

Consolidated Gross Turnover including other income came in at ₹ 617.77 Cr for FY 2018-19, as against ₹ 446.43 Cr in FY 2017-18. Net Profit including other comprehensive income for FY 2018-19 came in at ₹ 29.16 Cr, as against ₹ 14.69 Cr in FY 2017-18.

### DETAILS OF CHANGES IN KEY FINANCIAL RATIOS AS COMPARED TO THE IMMEDIATELY PREVIOUS FINANCIAL YEAR

In the reporting financial year, there is no significant changes in key financial Ratios except as below which are basically due to increase in operation profit margin only:

| Particular                           | FY 2018-19 | FY 2017-18 | % change |
|--------------------------------------|------------|------------|----------|
| Net Profit Margin to Net Revenue (%) | 4.72%      | 3.35%      | 41.03%   |

### Risk Management

Risk management is an inherent feature of any business. Paramount operates in a highly competitive environment which is largely affected by the changes in Government policies and regulations.

Some of the key risks identified by the Company are as follows:

#### Business Risk

Globally, optical fiber cables demand has grown exponentially resulting in product shortage. To mitigate the risk of short supply and ensure business continuity, the Company has entered into long-term contracts with fiber manufacturers.

#### Technology Risk

Manufacture of cables continues to be a basic process without much technological advancement. However, product performance has been the key area of technological improvements. The Company gives utmost importance to technology and closely monitors the latest technological developments in the space to remain competitive and carve out its niche. Robust in-house process control systems assure committed quality assurance.

#### Financial Risk

The Company has adequate control systems which facilitate effective management of financial risks and monitoring of optimal inventory levels to reduce the impact of raw material

price volatility and ensure lower cost of capital. The Company also continues to undertake operational and cost optimization measures to drive improved performance.

#### **Foreign Exchange Fluctuation Risk**

Being a major exporter and having import dependence for raw materials, the Company is exposed to risks arising from fluctuations in exchange rates. The Company practices adequate hedging combined with continuous tracking of currency movements to minimize impact of adverse exchange rate fluctuations.

#### **Competition Risk**

Led by strong growth prospects of the wire and cable demand in the country, competition has significantly stepped up in the space. The Company has ringfenced itself with its differentiation of high quality, innovation, value pricing, supply reliability and advantage of one-stop supplier for multiple product range. This has enabled the Company to create a strong brand equity and transform challenges into opportunities. The Company also follows a proactive strategy in responding to competitors, which enables the Company to stay ahead of competition.

#### **INFORMATION TECHNOLOGY**

Dynamic information technology (IT) is an integral part of the Company's operations. The Company has a sizeable IT team that continuously monitors and assesses technological progress to ensure it remains updated as per industry standards and latest developments. Existing business and new products, services, designs, frameworks, processes and methodologies are maintained using high-end software. The Company is thus able to provide innovative solutions to the customers to ensure high levels of satisfaction and convenience. The Company's

organizational culture encourages investment in technological advancement, which has resulted in visible benefits.

#### **HUMAN RESOURCES**

Human capital is considered a key resource and an integral contributor to the Company's success. The Company has well-defined HR policies which take care of both personal and professional growth of its employees. These policies nurture a culture that leads to alignment of employee goals with that of the Company. Regular trainings are provided to the employees in the form of quality and production workshops to ensure skill upgradation and personnel development. The Company maintains a safe, stimulating and energetic work environment to boost employee morale and enhance productivity. Maintaining a conducive work environment and fair remuneration and reward system, the Company ensures minimal attrition level. This also ensures engaged and motivated employees who contribute to business growth.

#### **INTERNAL CONTROL SYSTEM**

To safeguard its assets and ensure efficient productivity at all levels, the Company has robust internal control systems in place, commensurate with the size and industry in which it operates. The internal control mechanism ensures strict adherence to requisite laws and regulations. Financial reporting and transaction reporting is also made quick, easy and accurate due to internal controls. The organizational structure is properly articulated with well-defined policies and guidelines and distinguished authority levels. Operational, financial and other areas covered by the Internal Audit is periodically monitored and reviewed by the Audit Committee of the Board. Any deviations from standard are corrected and measures are taken to strengthen the internal control framework further.