

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **ECONOMIC OVERVIEW**

#### **Indian Economy**

India has emerged as the fastest growing major economy in the world as per the Central Statistics Organization (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. 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 Organization (CSO).

#### **Market size**

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- 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 2017, 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.

## **GST data and the Indian Economy**

Introduction of Goods and Service Tax (GST) and emphasis on cash-less transaction have provided a fillip to organized retail sector in India. GST was implemented from July, 2017 as the nation moved to “one nation-one tax” number of indirect taxpayers in the country witnessed growth of 50 per cent to 9.8 million unique GST registrants, as of December 2017.

India’s internal trade in goods and services (excluding non-GST goods and services) at 60 per cent is even higher than that estimated in last year’s economic survey. The current GST tax base (excluding exports) is around 6.5 to 7 million, broadly similar to the estimates of Revenue Neutral Rate Committee and GST Council. Based on the average collections from GST, the implied weighted average collection rate (incidence) is 15.6 per cent. This is similar to the estimate of 15-16 per cent made by the RNR committee. Non-agricultural workforce in the formal sector in India is considerably greater than previously held beliefs about the size of formal sector non-farm payroll. Estimates, on the basis of enterprise-based definition of employment, imply that nearly 53 per cent of non-agricultural workforce is in the formal sector.

## **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 digitization, globalization, favorable 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.

## **INDUSTRY OVERVIEW**

Positive impetus to fiscal discipline and increased momentum in bringing key economic reforms such as the introduction of Goods and Services Tax (GST) has been identified as one of the most important tax reforms post-independence that provided a conducive ecosystem for business growth.

### **Business Outlook and Market Overview**

Tool development will continue to follow the sporting motto “higher, faster, further” in the future. It signifies the striving for even higher performance, higher cutting speeds and feeds and a longer tool life with the objective to reduce manufacturing costs whilst meeting the required work piece quality. There are also new challenges for precision tools from future trends such as downsizing or lightweight design. Components that are smaller, yet more efficient are made from higher-strength materials. To reduce weight, composite materials are now also on the rise. And gear hobs, in particular, must meet additional requirements. The desire to be mobile is growing around the world. In Asian regions such as India and China, in particular, the demand for passenger cars is growing, requiring more and more gears. Another aspect is the development of automatic transmissions with more (up to 9) stages, which again increases the demand for smaller gears significantly.

### **Ease of Doing Business in India**

- Various reforms taken by the Government of India have led to increase in India’s ranking in the World Bank’s Ease of Doing Business Index from 130 in 2017 to 100 in 2018.
- India’s ranking in the taxation and insolvency parameters improved by 53 and 33 spots, respectively, on the back of administrative reforms undertaken by the Government of India in the areas of taxation and passage of Insolvency and Bankruptcy Code (IBC), 2016.

- To improve the ease of doing business in the country, the government has taken various initiatives to improve contract enforcement. Over 1,000 redundant legislations have been scrapped.
- The Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015 have been passed while intra-government litigation has been reduced.
- The National Judicial Data Grid (NJDG) is being expanded under which every high court in the country will be digitized very soon. The same was recognized in the rankings by the World Bank.

### **Machine tools Industry**

India stands 17th in production and 12th in the consumption of machine tools in the world. The country is set to become a key player in the global machine tools industry and is likely to see substantial high-end machine tool manufacturing. Studies have rated India higher in terms of manufacturing capability and availability of quality engineers. This design strength gives the Indian machine tools industry a competitive advantage, in terms of special purpose machine tools.

#### **Opportunities:**

The Indian machine tools sector also offers several opportunities for investment. Given the current gap between demand and supply, there is now an increasing need for adding capacities in this sector. The industry is moving towards increasingly sophisticated CNC machines, driven by demand from key user segments, such as, automobiles and consumer durables.

The rapidly globalizing world is opening up newer avenues for the transportation industry and over the next decade, this will lead to newer verticals and opportunities for auto component manufacturers, who would need to adapt to the changes via systematic research and development. The Indian auto component industry is set to

become the third largest in the world by 2025. Domestic machine tools makers are well positioned to benefit from globalization.

### **Threats:**

The Indian machine tools sector has been exposed to many risks of varying intensity. Three important concerns and threats auto component industry is facing are:

- Regulatory & infrastructure Bottleneck
- Low R&D spending and dependence on global suppliers for technology knowhow
- Rising imports from China

### **Risks and Concerns**

For the fast changing global business parameters, businesses have to be more vigilant of what is the next disruption which can either be leveraged or can have a bearing impact. Our Company has moved through various business cycles where it has not only learned but also pre-empted the risks that it may face. Also, through very comprehensive brainstorming, the Company has built a strong risk management framework that governs it in a very systematic manner. The framework is tested on a continuous basis and upgradation is an ongoing process. The management meets regularly to take stock of various parameters and analyze the same to assess the various short-term and long-term risks and formulate mitigation measures.

There are some concerns that electric mobility represents a danger for gears as gearboxes might no longer be needed for these. However, this fear needs to be put into perspective as both hybrid drives and purely electric drives still need gearboxes, albeit the latter with fewer gear stages.

Following are some of the key risks that the Company may face and the mitigation measures to it that the Company is looking forward to:

## **Market risks:**

Risks: The Company derives most of its revenue from few large customers. Any glitch in the customer relations with them will have an adverse impact on the Company's revenues.

Mitigation: Our Company is currently having a large pool of customer base and has planned to diversify its base and is working accordingly. Our Company is not only working towards client diversification but also business diversification.

## **Financial Risks:**

Risk: The Company is exposed to changes in foreign exchange rates, interest rates, credit availability and liquidity.

Mitigation: Our Company is taking adequate measures to deal with all types of financial risks.

## **Input Cost Risks:**

Risks: Raw material cost is amongst the biggest cost for the business and any movement in raw material prices may have an adverse impact on profitability.

Mitigation: Our Company's Risk management strategies focus on three key areas: financial hedges to help avoid significant unexpected price increases; operational hedges, such as design

changes, end-product pricing changes, and inventory management, to control how raw materials are purchased; and price increase controls that rely on a team with strong analytical and negotiation skills to protect against increases and reduce costs when raw materials pricing decreases.

## **Technology Risks:**

Risk: The world of technology is changing quickly with disruptions across industries. Any material change in components or manufacturing technology can make its business less preferred.

Mitigation: Our Company is well focused on modernization and technology upgradation and has been a forerunner in terms of adding new and advanced gears to the industry.

## **Regulatory Risks:**

Risk: The Company is exposed to changes in laws, regulations, policies and other Governmental actions including those affecting environmental matters, employee welfare, safety, wastage emissions.

Mitigation: Our Company has a well qualified and experienced compliance team in place which keeps a tab on all laws applicable to the Company and effectively monitors them on regular basis.

**Segment wise or Product-wise Performance**

The Company's segment-wise performance for the financial year 2017-18 is as under:  
(Amt. in Lacs)

Sl. No.	Segment	Performance
1.	Gear Hobs	1024.83
2.	Milling Cutters	305.41
3.	Spline Gauges	130.72

**Internal Control Systems and their Adequacy**

The Company has an adequate Internal Audit System that promotes reliable financial reporting, safeguards assets, encourages adherence to fair management and ethical conduct at various levels of the organization. The strong Internal Control Systems have been designed in a way that, they not only prevent fraud and misuse of the Company's resources but also protect shareholder's interest. The system ensures compliance with the respective laws & regulations, efficiency of operations, optimum utilization of resources, disclosure and adequate reporting of financial transactions, proper administration at all levels of the organization.

The Audit Committee of the Board of Directors of the Company, on regular intervals and in coordination with the Internal and Statutory Auditors, reviews and ensures adequacy of the internal control system prevalent at each level of the organization and passes on its recommendation to the management.

**Discussion on Financial Performance With Respect to Operational Performance**

During the financial year 2017-18 under review, the turnover of the Company augmented from Rs. 15.22 Crores in F.Y. 2016-17 to Rs. 15.76 Crores in F.Y. 2017-18 thus decreasing the Net Loss of the Company after deducting the Finance Costs, Depreciation and Taxes from Rs. 21.37 Lacs in the previous financial year to Rs. 3 Lacs in the current financial year.

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

The Company believes that the employees are not a resource but the most valuable assets of the Company and will play a key role in its future growth. Planned efforts are made to develop and retain talent. The Company provides growth opportunities to internal talent by assigning them higher responsibilities with suitable exposure and training. The Company maintains a positive work environment and constructive relationships with its employees with a continuing focus on productivity and efficiency. As on 31<sup>st</sup> March, 2018, Jainex Aamcol Limited had 102 permanent employees on the rolls of the Company.

**Cautionary Statement**

Statements in this Management Discussion and Analysis and Directors' Report describing the Company's objectives, projections, estimates and expectations might be construed as 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied by the forward looking statements due to risks or uncertainties associated therewith depending upon significant changes in political and economic environment, economic conditions, government policies and other incidental factors, environmental standards, tax laws, litigation and labour relations. Readers are cautioned not to place undue reliance on these forward-looking statements.