MANAGEMENT DISCUSSION & ANALYSIS

Amid coronavirus pandemic, India's Gross Domestic Product (GDP) grew at 1.60% in the January-March quarter of fiscal year 2020-21, but witnessed a contraction of 7.30% for the entire fiscal year. Farm sector Gross Value Added (GVA) growth was down at 3.10%, compared to 6.80% growth in the corresponding period of fiscal year 2019-20.

Construction sector GVA grew by 14.50% from 0.70% growth earlier. Mining sector shrank by 5.70%, as against a contraction of 0.90% a year ago. Electricity, gas, water supply and other utility services segment grew by 9.10% in the fourth quarter, against 2.60% expansion a year ago. Similarly, trade, hotel, transport, communication and services related to broadcasting contracted by 2.30% in the fourth quarter from 5.70% growth earlier. Financial, real estate and professional services grew by 5.40% in Q4 FY21 from 4.90% growth. Public administration, defense and other services growth fell to 2.30% during the quarter under review, from 9.60% a year earlier.

The impact during the second wave has been more pronounced on consumer sentiment and mobility rather than economic activity. The rebound in consumer spending would hence be more gradual than the first wave with vaccination being the key driver. We expect FY 2021-22 GDP growth at 10.50% vs our earlier estimate of 12.50%.

The company expect a very sharp rebound in overall growth matrix for the country and huge pent up demand awaiting in country in FY 2021-22. The growth factors may take little time to come up but with all around economic indicators showing growth trends, we are more than hopeful that the GDP growth can touch high single digits. COVID-19 waves still remain a risk for the business environment, however, the corporates are now placed at a better position for handling the same with past learnings.

Automotive Sectors Resilience in COVID Hit Year

The Financial Year 2020-21 was highly volatile and challenging year for whole of the world economy with the outbreak of the COVID-19 pandemic resulting in lockdown across the world. The FY 2020-21 began with nationwide lockdown imposed by the Government of India, in order to curb the spread of the COVID-19 pandemic, which had put a spanner in the works. As a result, country's overall economy witnessed the sharpest decline in the first quarter of FY 2020-21. The automobile industry, which was already facing headwinds of a slowing-down economy, geo political trade tensions, liquidity crisis, increased tariff hikes etc. was further impacted by COVID-19, consequently brought the industry to a standstill.

While Indian Auto Industry closed FY 2020-21 with an overall (across segments) year-on-year sales decline of 13.60% and registered cumulative sales of 1,86,15,588 units as against 2,15,45,551 units in FY 2019-20. The past few months have been relatively better with Q4 FY 2020-21 registering an uptick of 25.89% with total sales of 55,83,149 units as against 44,34,934 units in Q4 FY2019-20.

As per SIAM, total passenger vehicles (PVs) sales were 27,11,457 units in FY 2020-21 as against 27,73,519 units in FY 2019-20 (declined by 2.24%). The passenger car volumes dipped to 15,41,886 units in FY 2020-21 as compared to 16,95,436 units in FY 2019-20 (declined by 9.06%). The UV segment volumes grew by 12.13% to 10,60,750 units in FY 2020-21 as compared to 9,45,959 units in FY 2019-20.

Commercial Vehicles (CVs) are the barometer of the economy and clearly, were one of the worst-hit segment in terms of sales in a pandemic-impacted year when most non-essential economic activities including infrastructure development and construction, as well as public transportation, remained suspended for the substantial part of last year. As a result, the overall CVs segment registered a de-growth of 20.77% in FY 2020-21 to 5,68,559 units as compared to 7,17,593 units in FY 2019-20, with M&HCVs facing a relatively severe impact at 1,60,688 units in FY 2020-21 as against 2,24,428 units in 2019-20 (declined by 28.40%), compared to LCVs that clocked 4,07,871 units in FY 2020-21 as against 4,93,165 units (declined by 17.30%).

If one gets into the further segmentation, then passenger-carrying M&HCVs (buses) recorded an 81.70% YoY drop to 7,322 units as against 40,016 units while goods carriers were down by 16.84% to 1,53,366 units as against 1,84,412 units.

On the other hand, LCV passenger carriers recorded a 73.62% YoY decline to 12,088 units as compared to 45,814 units and goods carriers were down by 11.53% to 3,95,783 units as against 4,47,351 units.

CVs showed a strong resurgence in Q4 FY2021, with M&HCVs registering an uptick of 65.91% to reach volumes of 80,534 units (Q4 FY2020: 48,540 units) and LCVs recording a 32% YoY growth to sell 1,29,822 units (Q4 FY 2020 : 98,359 units). Cumulatively, CVs registered a 43.20% YoY uptick in Q4 FY2021 to 2,10,356 units (Q4 FY2020: 1,46,899 units).

The sale of Three- Wheelers declined by 66.06% in FY 2020-21 as compared to FY 2019-20.

During the FY 2020-21, the most affordable means of individual mobility – two-wheelers – registered a de-growth of 13.19% with total sales of 1,51,19,387 units as compared to 1,74,16,432 units in FY 2019-20. While scooter sales were down by 19.51% to 44,79,848 units as against sale of 55,65,684 units in FY 2019-20, motorcycles, which find precedence in rural India, clocked overall sales of 1,00,19,836 units as against 1,12,13,662 showing a drop of 10.65%.

Future Outlook for the Company

We expect the FY 2021-22 will bring lot of changes in the way the company (SSWL) functioned. Company will have clear focus on growth markets of Exports and Alloy wheels. Currently, revenue share of exports is around 15% and we are targeting to achieve close to 25% in FY 2021-22 by penetrating deep in export markets with varied products. The development pipe is also strong to help achieve the target in this financial year. Currently, your company is not into exports of alloy wheels and it can be a big game changer for your company in coming years where development work has started and we will attempt to repeat the steel wheel success story in alloy wheel segment. Your company is working aggressively towards overall cost matrix to improve profitability and it was exemplified during last two quarters of FY 2020-21 and we expect to carry the momentum in FY 2021-22. We expect to maintain positive bias on operating margins and built on economies of scale to improve shareholders value. The company is expecting to break its revenue target by record margin in the coming year and we expect all our growth engines to contribute towards this goal in FY 2021-22.

Alloy Wheels and Exports segment along with Domestic market share improvement can ensure that your company can achieve 12-15% revenue growth in the coming years and can optimize the operating leverage to maximize profitability.

We expect the FY 2021-22 will be record year in terms of many aspects of market growth and improvement in financial prudence of the company.

Export Outlook

Passenger Vehicles (PVs) exports from India declined by 39% in the last fiscal as disruptions caused by COVID-19 pandemic put brakes on the overseas shipments. Most of the damage was done in the first six months of FY2021 when pandemic-led lockdowns and other logistics, supply chain issues impacted the export of vehicles. Industry tried its best to catch up in the second half of the fiscal when things became relatively better but could not match up to the FY 2019-20 performance.

According to the SIAM data, PVs exports declined by 38.92% in 2020-21 to 4,04,400 units from 6,62,118 vehicles in 2019-20. Passenger car dispatches declined by 44.32% to 2,64,927 units last fiscal compared to 4,75,801 units in FY2019-20. Similarly, utility vehicle exports witnessed a 24.88% decline to 1,37,825 last fiscal compared to 1,83,468 units in 2019-20. Overseas shipments of vans saw a steep 42.16% fall during the last fiscal to 1,648 units from 2,849 units in 2019-20.

While the exports of passenger vehicles had dropped by a whopping 58% in the first half of FY 2020-21 due to the pandemic and resultant lockdowns, marginal improvement due to multitude of efforts by the OEMs in the second half of FY2020-21 led to the year closing with an overall decline in exports of passenger vehicles by 38.92%.

Your company has used this pandemic as an opportunity to de-risk itself and create larger market share of exports and we believe that over next few years exports can contribute upto 25-30% of the revenue and contribute to “Make in India” mission of India. SSWL achieved Rs. 271 Crores worth of exports in FY 2020-21 against Rs. 221 Crores in previous year. We feel these exports can go significantly higher in FY 2021-22 with the world grappling with supply chain issues and India can be a good source of supply to the world with its capability in manufacturing. Your company aims to reach 25% of its turnover as exports as base line target for FY 2021-22 which will help grow the penetration in European as well as American automotive markets.

Opportunities

With the global commodity prices surging to record level and global sea freight also rising to highest ever levels posing threat to global supply chains, India stands at a unique opportunity of balanced commodity prices as compared to level in Europe and US and become a natural choice to build supply chain centers. India is smartly placed on the map to get freight advantage as compared to many other countries for exports to US and EU. We feel that India can grab this opportunity to build in roads for many automotive markets. Once the quality is established, this will be big game changer for all automotive part makers in India. India has passed the vehicle scrappage policy and the incentive scheme for old vehicle scrapping will be out soon. This initiative will help contain raw material cost surge with recycling boosting the reduction in fresh material usage. Also once the incentives on old vehicles starts the recycling process, this can build huge demand as India has more than 20 million old vehicles which will get into this umbrella and will create replacement demand helping the automotive segment.

Threats

<u>COVID-19</u>

COVID-19 remains the largest threat for the world economy and its growing size will remain the largest business risk for any business worldwide. The expectation of a large outbreak of COVID-19 will be the single largest factor to disturb the global demand scenario. Any disturbance in global supply chain on the back of COVID-19 pandemic will be elevated and can pose threat to the growing optimism of the automobile green shoots.

<u>Unforeseen and Sudden Currency Volatility and Raw material prices</u>

Volatile and unstable global markets have widespread implications for manufacturing organizations. From unexpected fluctuations in raw material costs to currency volatility, unforeseen obstacles destabilize supply chains. With raw materials becoming harder to secure, commodity price volatility will affect the cost of manufacturing and thus, the profitability of the Company. What it means is that we will have to choose from either absorbing the significant additional costs, until we find new ways to mitigate the expenses, or pass on the price load to customers, who are already reluctant to spend.

In addition to above, other factors such as Government policy on procurement, credit availability etc. may pose threat to the industry as whole.

Financial Performance with respect to Operational Performance

During the FY 2020-21, the total income of the Company increased by 11.37% to Rs. 17657.33 million as compared to Rs. 15854.55 million in FY 2019-20.

In terms of number of wheels, the Company has achieved sale of 13.36 million wheel rims during FY 2020-21 against sale of 13.975 million wheel rims during the FY 2019-20, showing a drop of 4.40%.

The Earnings Before Interest, Depreciation and Tax (EBIDTA) increased to Rs. 2200.72 million in FY 2020-21 from Rs. 1933.04 million in FY 2019-20, registering an increase of 13.85%.

The Depreciation and other amortization have increased to Rs. 723.11 million in FY 2020-21 from Rs. 719.38 million in FY 2019-20.

Profit before tax during the year under review has almost doubled up to Rs. 638.30 million in FY 2020-21 from Rs. 327.01 million in FY 2019-20 recording an increase of 95.19%. The profit after tax (before other comprehensive income) have also increased to Rs. 492.50 million from Rs. 234.50 million, showing an increase of 110.02%.

The company witnessed the impact of credit tightening and overall slowdown in Automobile sector. Despite the COVID -19 year, your company demonstrated skills to outpace the industry growth. We expect to deliver much higher growth in FY 2021-22 with the help of exports, alloy wheels and overall domestic industry market share growth. The management is focused on further de-risking the steel business by its entry in Alloy wheel segment. We expect in FY 2021-22, the segment will contribute close to 20% of the revenue and will be EBIDTA accretive to the consolidated business. The company wants to grow the Alloy business to other parts of the industry and wants to concentrate on light weighting theme in automotive segment and enter newer products in coming years. This will give future growth opportunities to company and will further de-risk the overall steel wheel business of the company. The company is geared up well to achieve better financial matrix in years ahead for enriching the shareholders value and will look into further deleveraging the business. Your Company is trying hard to optimally utilize its facilities to maximize the financial resources to reduce obligations and become leaner in terms of financial cost saving in coming years.

The company went through the rough times of COVID-19 in the last financial year and fought hard against all the financial and economic turbulence to win over the situation. Post COVID-19, the operational matrix has changed dramatically and company has worked extensively to de-risk the business into various segment of automotive markets. Going forward aggressively, product and market development is on anvil to further explore product acceptability to improve growth prospects for SSWL.

Return on Net Worth (PAT/Net Worth)

FY2021	FY2020	Detailed Explanation
6.57%	3.31%	The Profit after Tax for financial year 2020-21 have been increased due to Increase in export sales as well as increase in Alloy Wheel sales which has contributed to better profit margin.

Key Financial Ratios

Key Financial Ratio	FY2021	FY2020	%Change		Detailed Explanation in case change is more than 25%
Debtors Turnover	53.64 days	47.13 days	13.81%	Credit Sales/Average Account Receivable	N.A
Inventory Turnover	103.59 days	77.91 days	32.96%	Cost of Goods Sold/ Average Inventory	The inventory turnover days have been increased due to extra lifting in the end of the financial year 2020-21
Interest Coverage Ratio	1.76	1.37	28.46%	EBIT/Interest	Increase in top-line which led to increase in ratio
Current Ratio	0.96	0.97	-	Current Assets/Current Liabilities	N.A
Debt Equity Ratio	0.51	0.63	(19.05%)	Long Term Debt/Equity	N.A
Operating Profit Margin (%)	8.40%	7.76%	8.25%	Operating Margin/Net Sales	N.A
Net Profit Margin (%)	2.82%	1.48%	90.54%	PAT/Net Sales	The PAT ratio has increased due to increase in Exports and alloy sales.

Segment –wise or product wise performance

The Company is primarily engaged in the business of manufacturing Steel Wheel Rims and Alloy Wheel Rims catering to different segment of automobile industry. The inherent nature of activities is governed by the same set of risk and returns; hence these have been grouped as a single segment. The said treatment is in accordance with the principle enunciated in the Accounting Standard on Segment Reporting (AS 17).

Risks & Concerns

The Company's business is exposed to many internal and external risks and it has consequently put in place robust systems and processes, along with appropriate review mechanisms to actively monitor, manage and mitigate these risks. Some of the key existing and emerging risks affecting the Company are as follows:

Risks Type	Key Risks	Impact on SSWL	Mitigation
Strategic Risk	Global Economic Scenario	Vehicle purchase across different segment has strong correlations with GDP growth. The decision to purchase a passenger vehicle comes under customers' discretionary spending (Passenger Vehicle) which is linked to their perception of business outlook. Depressed economic outlook can impact this spending and thereby constrain the Company's growth potential.	Diversified product mix, segment mix and customer mix. Target newer market segments which might provide counter-cyclical support
	Long term growth dependent on of capacity expansion	Capacities utilization across all the plants are inching up gradually and with business environment turning favorable growth in long term will be dependent on Capacity addition.	Debottlenecking exercise across all the facilities are being carried every quarter. Optimum scheduling of production across different products thereby improving yield. Possibility of setting up new lines wherein Company has project Management expertise.
Operation Risk	Supply chain disruption.	The raw material (Steel & Aluminium) accounts for 60-65% of the cost, poses a key risk as it may be subject to supply disruption and market price volatility.	The Company maintains significant integration of raw materials for its Operations. To achieve greater raw material security, company enters into long term MOU with suppliers. Development of alternate sources for uninterrupted supply of key raw material.
	Employee Productivity and retention	Employee involvement and productivity is one of the key factors to be competitive in industry. Being a labour intensive sector employee welfare assumes significance	Company has strong commitment towards creating and providing safe working environment for its employee and stakeholders. Focused approach to retain key talent through multiple initiatives including providing cross functional access and experience. Focus on employee engagement. Increased focus on offering learning opportunities with allocation of funds for training requirements.
	Competition	The Company faces competition in the business field it operates in. As a result, the Company is exposed to dual risk of either being displaced by existing or new competitors or its products being replaced by product innovations and new technological features. Customer dissatisfaction on price, quality, delivery performance, and design could lead to loss of market share	The Company ensures close cooperation with its key customers on product development. It has implemented strict product quality controls in order to reduce the likelihood of substitution. The company remains ahead on technology front on light weighting the products to offer best in class products to its customer.
Financial Risk	Currency Volatility	Volatility in currency exchange movements resulting in transaction and translation exposure.	Board approved Currency hedging policies and practices are in place. Close monitoring of hedging strategy by risk management committee. Quarterly assessment of foreign exchange exposure by Board.

Risks Type	Key Risks	Impact on SSWL	Mitigation
	Debt Burden	The Company's outstanding indebtedness in an adverse environment can have significant impact on financial flexibility and business as a whole	Close monitoring of debt profile and continuous effort to bring the cost in line with industry. Continuous effort to maintain the impeccable credit history. Quarterly review of financial leverage and efforts are on to move towards industry benchmark.
	Credit Rating	Failure to maintain credit ratings could adversely affect cost of funds.	Regular exchange of information and updates with agency. Focused approach to work on areas of improvement and to build upon areas of strength. Close monitoring of triggers highlighted in rating rationale
	Social costs	SSWL's assumptions while estimating social cost like gratuity funding are subject to capital market and actuarial risks and any shortfall could put pressure on financial performance.	A framework to manage social cost risks has been deployed to ensure that obligations remain affordable and sustainable, whilst protecting the asset market exposure.
	Credit Risk	Customer default can pose a significant challenge and impact the bottom line of the Company.	Systems are in place to assess the credit worthiness of new as well as existing customers.
	Financial Fraud	Financial fraud can challenge the reputation as well existence of the Company besides denting the confidence on the systems in place.	Adequate Internal financial control system in place. Adequate accounting records are in place to safeguard the assets of Company and for preventing and detecting frauds. Vigil Mechanism in place that provides a formal mechanism for all Directors, employees and vendors of the Company to approach the Ethics Counselor/ Chairman of the Audit Committee of the Board and make protective disclosures about the unethical behavior, actual or suspected fraud.
Legal Risk	Regulatory environment & compliance	The Company is subject to numerous laws, regulations and contractual commitments. Any failure to comply with same may impact the Company adversely.	The Company has policies, systems and procedures in place with a strong commitment from the Board and the Executive Committee towards compliance.

INTERNAL CONTROLS AND THEIR ADEQUACY

The Company has a robust internal control and audit system to provide adequate assurance regarding the effectiveness and efficiency of its systems and operations. The controls are commensurate to the needs of the organization given its size and complexity of operations. The standard operating procedures ensure compliance to local regulation and statutes as applicable to the Company. The Company strictly ensures adherence to all internal control policies and procedures as well as compliance with all regulatory guidelines.

DEVELOPMENT IN HUMAN RESOURCES

FY 2020-21 is the year of the pandemic but all our plants have been functioning normally since May 2020 on easing of lockdown restrictions. Post the easing of lockdown restrictions, there has been a focus on renewing and continuing operations in a safe and sustainable manner. The reopening of plants, corporate office, branch offices post lockdown has been done in a manner that provides a safe working environment for the workforce. All safety protocols mandated by local authorities at the different plant locations have been followed. A much better than expected recovery in demand in the second half of the year has been a challenge for operating teams at the plants.

The workforce showed great resilience in the face of an unprecedented pandemic demonstrating its ability to adapt to new circumstances. They ensured that your company was quickly on its way to normalcy and well placed to exploit opportunities in favourable market conditions.

Furthermore, the Company has continuously adopted structures that help in attracting best external talent and promote internal talent to take higher roles and responsibilities. The Company's people centric focus is providing an open work environment fostering continuous improvement and development among the employees of the Company. The Company provides a holistic environment where employees get opportunities to realize their potential. The Company's performance driven culture helps and motivates employees to excel in their respective areas and progress within the organization. The Company has a structured appraisal system based on key result areas (KRAs) for employees belonging to Manager and above category. As on 31.03.2021, the Company had 2171 permanent employees on the rolls of the Company.

DISCLAIMER

This report contains certain statements that the Company believes and may be considered as forward looking statements. These forward looking statements may be identified by their use of words like ‘ plan’, ‘hope’, ‘will’, ‘expect’, ‘aim’ or such similar words or phrases. All such statements are subject to risks and uncertainties which could cause actual results to vary materially from those contemplated by the relevant forward looking statements.

For and on behalf of the Board

Date: 03.09.2021
Place: Chandigarh

(Rajinder Kumar Garg)
Chairman
DIN: 00034827