

MANAGEMENT DISCUSSION AND ANALYSIS

Macro-Economic Situation

The Indian economy has now gradually improved from the temporary slowdown effects of Goods and Services Tax (GST) roll-out and demonetization and is now projected to grow over 7%. Investments in infrastructure and recapitalization of public sector banks will fuel the growth. Digitalization of the Economy should improve transparency and efficiencies.

Lower crude oil prices during the last two years helped improve India's fiscal deficit situation but now with increasing crude oil prices, there could be an adverse inflationary impact on the economy.

Industry Structure and Developments

The foundry industry, which is the main market segment of the Company, is directly linked to the industrial activities in automotive, oil & gas, construction, wind energy and the agricultural machinery and other equipment industries. The last year growth was in high single digit mainly driven by high growth of Auto and Tractor segments.

The size of the Indian foundry industry is estimated to be close to 11 million MT per annum of casting production. This translates into Foundry Chemical demand of approx. 180 KT per annum. The foundry chemical segment has intense competition with many international and local players actively participating in the market.

The Company manufactures foundry binders, coatings and other allied chemical products for the foundry industry. Providing customized solutions for various different types of casting application is the strength of the Company.

Outlook and Opportunities

The growth in manufacturing activities in India has a direct bearing on the Company's business and a stronger growth rate will be positive for the Company. The Company targets to achieve sustainable and profitable growth in FY 2018-19 also. A careful watch needs to be kept on the following factors:

- Revival and growth of industrial production in India
- Crude oil prices
- Regulatory situation in key raw material markets e.g. China
- Increase in product prices in line with increase in raw material prices
- New business development in existing and new markets

Opportunities

- Improvement in industrial production outlook creating higher demand in existing segments
- Opportunities for growth of business in new applications through diversification
- Enhancing operational efficiencies by optimization of processes

Financial Performance

For the FY 2017-18, the Company focused on investments for capacity expansion and sustainability. Gross Revenues from Operations grew to ₹ 27,554.44 lakhs from ₹ 18,047.89 lakhs in the previous year. EBIDTA this year grew to ₹ 2,229.96 lakhs as compared to ₹ 1,861.05 lakhs in the previous year, however, PAT dropped marginally to ₹ 1,038.79 lakhs from ₹ 1,080.77 lakhs in the previous year.

Strategies for the Future

Your Company successfully test marketed polyurethane systems for footwear and furniture. With this diversification, the Company is now geared up for accelerated growth while reducing dependency on the foundry sector.

Operations

Both the manufacturing sites have undergone capacity expansion and plant modernization. The Tarapur site now manufactures foundry binders, foundry coatings and polyurethane systems. The Bengaluru site is used to manufacture foundry coatings and other allied products.

Internal Financial Control Systems

The Company has put in place adequate internal controls covering operational, financial & entity level transactions. These controls are tested on periodic basis through internal audit programs & self-reviewing mechanisms.

The Company uses the RAMCO ERP system. It provides a framework for business processes and controls while giving real-time data analytics.

Threats, Risks and Concerns

The Company has delivered a sustainable growth over last few years and is well equipped to deal with issues arising from external factors. The Company is well positioned in the market due to its ability to adopt new technologies, develop products,

optimize production, effectively manage the supply chain and continually improve. All possible risks are identified and steps taken to mitigate the same by the Company. Risk mitigation actions are reviewed on periodic basis by management and its auditors and status is presented to the Audit Committee. Measures suggested by Audit Committee are implemented and reviewed on regular basis.

Some of the risks and threats as seen by the Company management today are mentioned below:

Risks

- Fluctuations in market demand
- Fluctuations in raw material prices caused due to increase in feedstock prices and/or regulatory restrictions in external market situations
- Currency exchange fluctuations
- Regulatory matters

Threats

- Increasing level of competition
- Introduction of New Technologies that make current products irrelevant

Research & Development

R & D is an important part of the Company's strategy and towards this end, the R & D team has been bolstered with new recruitments along with the establishment of a new Polyurethane Footwear Laboratory. The R & D findings are continuously monitored and are linked to market realities to achieve sustainable growth.

The Foundry Research team was actively involved in providing effective solutions to customers, improving internal productivity through process optimization, implementing cost saving measures such as import substitutions as well as developing new grades during the year keeping the Company abreast of domestic as well as international competitors.

Human Resources

During the year under review, the Company's HR function focused on strengthening its Performance Management System and implementing the SAP Success Factor software tool. Also, there were number of engagement initiatives taken by the Company for its employees.

The Company has taken a continued and focused approach towards development of a capable & result oriented workforce.

The HR Department has emerged as a strong strategic function in helping the organization pursue its people development strategy.

The Industrial relations were amicable and congenial throughout the year.

Health, safety and Environment

The Company is fully dedicated to reinforce and improve the process of Quality, Environment Protection, Occupational Health and Safety Management.

The Corporate office and both factory sites are certified for Integrated Management System (IMS) comprising certification to ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007, by internationally renowned certification body Intertek.

A continuous effort is being made by the Company to lower effluent loads, reduce consumption of energy and water, recycle and reuse water, generate energy through renewable sources such as solar, lower emissions and greening of its factory sites to fulfil its commitment to Sustainable Development.

Company continues to focus on the 'zero accident' policy achieved over several years. Refresher safety trainings held for all employees across all sites has brought about greater awareness amongst all employees & has ensured lower unsafe incidents.

The tradition of participating in the 'Annual Safety Week' has been continued. Through various competitions and other activities safety issues are highlighted to employees. The management as well as workers are eagerly participating in the same.

Cautionary Statement

Statements in the Management Discussion and Analysis Report describing the Company's objectives, projections, estimates, expectations may be interpreted as "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to Company's operations include economic conditions affecting demand / supply, price conditions in the domestic and overseas markets in which the Company operates, changes in Government regulations, tax laws and other statutes.