

Annexure 'D'

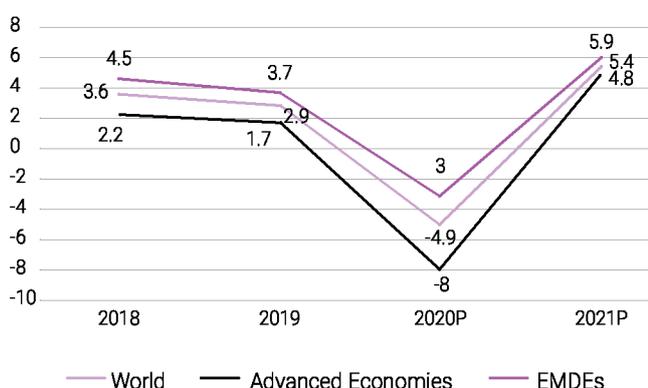
Management Discussions and Analysis (MD&A)

Global Economy Overview

In CY 2019, the GDP for the global economy stood at 2.9%, registering a decline in comparison to the previous year. Rising trade barriers and associated uncertainty weighed heavily on business sentiment and activity, globally, leading to a gradual slowdown. In some advanced economies and China, these developments magnified cyclical and structural slowdowns further.

The global economy is projected to contract by 4.9% in CY 2020, owing to the recent outbreak of Covid-19. The pandemic is impacting emerging markets with an unprecedented mix of domestic and external shocks, whose combined effects are very difficult to predict.¹ The U.S. economy is projected to shrink to 8% and Europe by 10.2% in 2020. However, governments and central banks across economies have reacted aggressively to the weaker activity and have averted a deeper slowdown by lowering interest rates and implementing supportive financial conditions. With these measures in place, the global economy is expected to revive and grow by 5.4% in CY 2021.

Global Economic growth (in %)



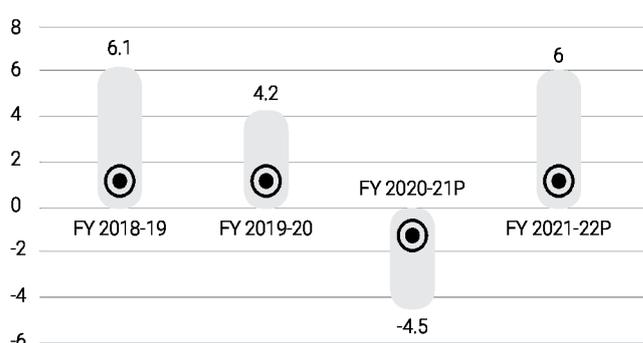
India obtained 63rd rank in the World Bank's "Doing Business" report in CY 2019.

Indian Economy Overview

India has ranked among the top 10 economies of the world in the past few years and presently, occupies the 5th position in terms of GDP, globally, in CY 2019. The country has been facing multiple headwinds due to global factors and challenges in the domestic financial sector. Its GDP declined to an 11-year low of 4.2% in 2019-20 and despite multiple challenges, India obtained the 63rd rank in the World Bank's "Doing Business" report in CY 2019, rising from its 142nd rank in CY 2014. It was mainly on account of the government's continuous efforts to boost 'Make in India' initiatives and favourable policy reforms to attract foreign investment.

The world economy at the moment is reeling under the pressures of the Covid-19 pandemic. India too has been severely affected by the nationwide lockdown imposed to control the virus outbreak. India's GDP for FY 2020-21 is projected to contract to 4.5%. The country's growth rate is expected to bounce back and register a growth of 6% in FY 2021-22, indicating prospects for an economic recovery. Once the effects of the pandemic wanes, the Indian economy is anticipated to return to its growth trajectory relying on significant policy reforms.

Indian Economy GDP (in %)



Global Chemicals Industry

The chemical industry has been an integral part of the global economic landscape for many centuries. The industry has evolved to become a bastion of productivity that permeates

¹IMF WEO June 2020

through nearly every goods-producing sector. Today, the chemical industry plays a crucial role in regional economies in every corner of the world and in most sectors of those economies.

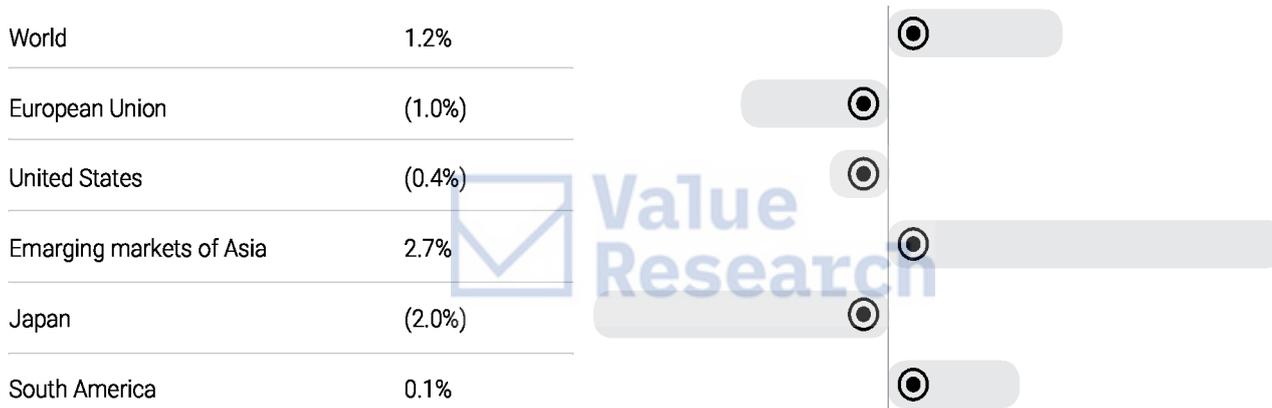
According to the International Council of Chemical Associations, the chemical industry contributes an estimated \$5.7 trillion² to world Gross Domestic Product (GDP) through direct, indirect and induced impacts, equivalent to ~7% of the world's GDP, and supporting 120 million jobs worldwide. The industry experienced a slowdown in CY 2019, primarily due to escalating global trade tensions and a weakening economy impacting the chemical demand. The trade war led to a fluctuation in price across the global chemical market. Additionally, the industry was also affected by the weakening automotive markets and the uncertainty caused by Brexit.

Despite worsening economic conditions and political tensions, sustainability has been a priority for the chemicals industry in CY 2019. The demand for eco-friendly and sustainable chemical continued to increase with companies across sectors adopting measures to reduce their environmental footprint and ensuring supply and manufacturing of eco-friendly products.

Global chemical production (excluding pharmaceuticals) is expected to grow by 1.2% in CY 2020, much slower than in CY 2019. The outbreak of Covid-19 led to production stoppage and slowed consumer demand significantly, resulting in a negative impact on the industry. However, as the effect of the pandemic fades and businesses resume, pickup in consumer confidence and demand is expected to improve sentiments in the near future.

Outlook for chemical production 2020 (excluding pharmaceuticals)

Real change compared with previous year



[Source: <https://report.basf.com/2019/en/managements-report/forecast/economic-environment/chemical-industry.html>]

Indian Chemicals Industry

The Indian chemical industry is an integral component of the Indian economy, contributing ~2% to the nation's gross domestic product (GDP) and ~16% to the manufacturing sector. Whether it is thermoplastic furniture, synthetic garments or the vehicle we use – the chemical industry touches lives in every possible way and varied sectors are inextricably linked to it. The industry plays a significant role in boosting the agricultural and industrial segment. The chemical industry is broadly classified into Specialty chemicals, Agrochemicals, Petrochemicals, Bulk chemicals, Polymers and Fertilizers. The sector has been witnessing tailwinds with India emerging as an alternative supplier to China, for key raw materials and components. Indian manufacturers have been capitalizing on these opportunities and have set up additional capacities to cater to rising demand. The upcoming Petroleum, Chemicals and Petrochemicals Investment Regions (PCPIRs) and Plastic parks will provide state-of-the-art

infrastructure for Chemicals and Petrochemicals sector in India. The chemical industry in India is positioned to capitalize on near-term opportunities.

Highlights

- 🔗 The Indian chemicals industry is projected to reach \$304 billion by CY 2025
- 🔗 The chemical industry grew at a CAGR of 17% between 2016 and 2019, despite challenges³
- 🔗 India ranks 14th in export and 8th in import of chemicals globally (excluding pharmaceuticals products)
- 🔗 Demand for chemical products is expected to grow by approximately 9% p.a. by CY 2025
- 🔗 The segment provides employment to over 2 million people⁴

²International Council of Chemical Associations (ICCA)

³<https://www.mckinsey.com/industries/chemicals/our-insights/indias-chemical-industry-unleashing-the-next-wave-of-growth>

⁴<https://www.investindia.gov.in/sector/chemicals>

Opportunities for Indian Chemical Industry

- The focus on petrochemicals in India might increase due to the interest of global oil and gas majors on downstream chemical opportunities. This would also lead to higher investment in the sector, which could ease feedstock challenges and boost self-sufficiency.
- China's chemical industry is facing challenges due to stricter environmental norms, leading to structural changes in the industry. These shifts would cause uncertainty for international players that source chemicals from China and could create opportunities for the Indian chemical industry.
- There have been shifts in global supply chains due to trade conflicts around the world, especially among China, the United States and Western Europe. This has affected bilateral trade between China and the U.S., with possible repercussions for other economies. In this scenario, large chemical markets that remain accessible, could present opportunities for the chemical industry in India.

Many companies, worldwide, are embracing digital technology and enhancing their production techniques. Digital technology has established itself as a lever to enhance efficiency and productivity. Indian companies could also tap into this opportunity to expand their profit margins.⁵

Specialty Chemical Industry overview

Specialty chemicals are used as ingredients in finished products and to improve manufacturing processes. They are also called Performance Chemicals due to their vital role in enhancing the quality of various products. It has a unique positioning in the chemical industry as they are manufactured and sold based on their performance or function, unlike commodity chemicals which are strictly based on their chemical composition.

Indian Specialty Chemicals Industry

Specialty chemicals constitute 22% of the total chemicals and petrochemicals market in India. Due to rise in demand from various end-user industries, the specialty chemicals market in India has been flourishing over the past few years. The closure of plants in the European Union and China, owing to increasing environmental concerns, has opened doors for Indian manufacturers to invest further in specialty chemicals.

The specialty chemicals market in India is expected to reach ₹ 4,527.36 Bn by FY 2024, expanding at a CAGR of 11.9% between FY 2019-24. Among the major segments of the Indian specialty chemicals market, the water treatment chemical segment is expected to experience the fastest year-on-year growth of 14.63% during the FY 2016-24 period.

Key Growth Drivers

An increase in demand in end-user industries like food processing, personal care, and home care is propelling the development of different segments of the Indian specialty chemicals market.

Due to busy work schedules, people lack the time to cook and prefer consumption of processed and packaged foods. Edible oils and colours find application in the food processing market and due to the growing consumption of processed and packaged food, demand for these chemicals are constantly growing.

Improvement in the standard of living as a result of globalization and an increase in the per capita income are driving growth in the premium home care and personal care segments.

The downturn of the Chinese chemical market in the past few years has established export opportunities for Indian manufacturers.⁶

The World Bank stipulated that farmers globally will have to improve their yield by at least 50% by 2050 to sustain the current population growth. This demand has consequently created key opportunities for producers of specialty chemicals.

Business Overview

Vinati Organics Limited (VOL) is a specialty chemical company, manufacturing specialty chemicals and organic intermediaries. With two state-of-the-art manufacturing units in Maharashtra, VOL is a leading producer of two major products - Isobutyl

Benzene (IBB) and 2-Acrylamido 2 Methylpropane Sulfonic Acid (ATBS). The Company's zeal to combine innovation with chemistry enables it to deliver superior quality products to its diverse client base. Vinati Organics has successfully established a strong foothold across the globe, with its products reaching out to customers in more than 35 countries.

⁵<https://www.mckinsey.com/industries/chemicals/our-insights/indias-chemical-industry-unleashing-the-next-wave-of-growth>

⁶https://www.researchandmarkets.com/reports/4988979/specialty-chemicals-market-in-india-2019?utm_source=dynamic&utm_medium=BW&utm_code=p7kpxr&utm_campaign=1354250+-+India+Specialty+Chemicals+Market+Expected+to+Generate+a+Value+of+INR+4%2c+527.36+Billion+by+2024&utm_exec=anwr281bwd

Core Strengths

- ✦ **Research** – insight into complex chemistry and focus on research & development has allowed the company to improve productivity and efficiency of operations.
- ✦ **Market Leadership** – the company is a market leader in the industry segments it operates in and enjoys global leadership in IBB and ATBS and domestic leadership in IB and HPMTBE.
- ✦ **Product Portfolio** – the product portfolio consists of niche products assuring integration and synergy in operating facilities.
- ✦ **Strong Collaborations** – the company has well-founded technical partnerships with renowned global and national players.
- ✦ **Synergic Integration** – the company lays great emphasis on synergic integration which has augmented its quest for global leadership and helps to retain its competitive advantage.

Human Resources

The greatest asset to any business is its human resources; hence, the Company puts great emphasis on the development of its employees. To build a talent pool, it becomes necessary for the human resource function to partner with various business segments, so as to create a work ecosystem that shall have on board the right talent and therefore, nurture them to deliver superior performances. The employees at VOL are driven by purpose and are fully empowered to excel in an evolving and dynamic business environment. It has been the continuous endeavour of the Company's Human Resources function to attract the right talent, develop the right capabilities and skills, and continuously encourage them by providing the right culture and work environment to inspire them to deliver their best for achieving the Company's goals. Keeping in mind the importance of a capable and hardworking workforce, the Company believes in identifying and training high potential employees to prepare leaders of tomorrow.

Risk Management

Given the nature of the Company's business and changing market dynamics, it is exposed to various risks during its daily course of operations. Some of the key risks and mitigation strategies adopted by the company is illustrated below:

1. **Economic Uncertainty:** Rising trade tension, decreasing consumer confidence and political tension significantly affected the growth prospects of the Indian and global economy. The recent outbreak of COVID-19 has further dampened the growth potential, plunging major economies into recession. This might have an adverse impact on the Company's operations.

Mitigation: The Company constantly monitors changes in the macroeconomic environment and assesses its potential impact on the company's operations. It enables the Company to quickly respond to changing market trends and safeguard its operations against uncertainty. Further, the COVID-19 outbreak has led to a temporary slowdown and the Company is proactively dealing with the situation, following safety protocols in all its manufacturing facilities to ensure smooth operations even during the countrywide lockdown. It also relies on a robust business continuity plan to enable long-term business sustainability.

2. **Competition:** The Company faces competition from domestic as well as international players. The Company's inability to deliver new and innovative solutions and keep up with dynamic changes in the market may lead to loss of revenues. Further, competition may also result in pricing pressure leading to an impact on its margins and profitability.

Mitigation: Over the years, Vinati has established a firm foothold in key markets and has built a strong and healthy relationship with customers. It also significantly invests towards research and development of new, improved and innovative products, aligned to changing customer needs. This has enabled the Company to further strengthen its brand reputation, giving it a competitive edge over its peers.

3. **Quality:** The Company's inability to abide by stringent standards of quality might adversely impact operations, leading to monetary and intangible losses.

Mitigation: Vinati has established a dedicated quality assurance department comprising of experienced and qualified executives to ensure adherence to strict quality standards. The Company's products undergo stringent quality checks and it is a ISO 9001: 2008, ISO 14001: 2004 and ISO 18001:2007 certified Company, validating its position as a reliable business entity. Further, its customers can also carry out EHS audits at the Company's premises.

4. Environment: With an alarming rate of climate change and unprecedented levels of pollution, it is vital for organizations to reduce the impact of their operations on the environment. Given the nature of the company's business, it is pivotal for the Company to introduce eco-friendly products that have a minimal impact on the ecosystem.

Mitigation: The Company's R&D team constantly works towards the development of eco-friendly products for its customers across the globe. Further, it also invests in technologies to deliver unique solutions with an endeavor to promote 'green chemistry'. The Company's plants are ISO 14001 certified for its strict adherence to Environmental Management System standards.

5. Retention and acquisition of skilled employees: To ensure smooth operations and long-term sustainability, it is vital to have a dedicated and committed team in place. Unable to retain or acquire competent and experienced employees may hamper the Company's ability to pursue its growth strategies effectively.

Mitigation: The Company's HR team constantly strives to hire talented employees and aims to retain existing people with attractive opportunities for professional growth. It also organizes various training and development initiatives to upskill employees and prepares them for challenging circumstances.

Financial Review

During the year, the Total Income reduced by 7%, and the EBITDA increased marginally by 1% but the PAT grew by 18% mainly on account of the changes in corporate tax.

Particulars	₹ in Lakhs		
	2019-20	2018-19	YoY Change (in %)
Total Income	1,07,386	1,15,809	-7%
EBITDA	45,893	45,357	1%
PAT	33,382	28,249	18%
Net Worth	1,27,941	1,05,128	22%

Key Ratios

Particulars	2019-20	2018-19
Total Debt Equity Ratio (X)	0.00	0.00
Current Ratio (X)	7.22	5.98
Interest Coverage Ratio (X)	439.30	512.73
Receivables Turnover Ratio (X)	4.62	5.36
Inventory Turnover Ratio (X)	5.86	7.86
Operating Profit Margin (%)	40%	37%
Net Profit Margin (%)	31%	24%
Net Worth (₹ Lakhs)	1,27,941	1,05,128

Outlook

The Company's products find application across various sectors such as pharmaceutical, water treatment, oil and gas, agrochemicals and personal care. For FY21, there is some pressure on the oil related application but demand for pharma, water treatment and others is expected to continue growing. The introduction of Butyl Phenols which are used in fragrance and anti-oxidants will also contribute meaningfully to the overall sales and help the Company to tide through the global slowdown caused by the Covid-19 pandemic.

Disclaimer

Certain statements in the MDA section concerning future prospects may be forward-looking statements which involve a number of underlying identified / non identified risks and uncertainties that could cause actual results to differ materially. In addition to the foregoing changes in the macro-environment, global pandemic like COVID-19 may pose an unforeseen, unprecedented, unascertainable and constantly evolving risk(s), inter-alia, to the Company and the environment in which it operates. The results of these assumptions made, relying on available internal and external information, are the basis for determining certain facts and figures stated in the report. Since the factors underlying these assumptions are subject to change over time, the estimates on which they are based, are also subject to change accordingly. These forward-looking statements represent only the Company's current intentions, beliefs or expectations, and any forward-looking statement speaks only as of the date on which it was made. The Company assumes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise.